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MEDICAL CARE FOR THE AGED

EXECUTIVE
HEARINGS
BEFORE THE
COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES
EIGHTY-NINTH CONGRESS
FIRST SESSION
ON
H.R. 1 AND OTHER PROPOSALS
FOR MEDICAL CARE FOR THE AGED

JANUARY 27, 28; FEBRUARY 1, 2, 3, 4, 5, 8, 9, 10, AND 16, 1965

PART 2

Printed for use of the Committee on Ways and Means

MEDICAL CARE FOR THE AGED

89th Congress
1965-1966

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EXECUTIVE SESSION

MEDICAL CARE FOR THE AGED

FRIDAY, FEBRUARY 5, 1965

House of Representatives,
Committee on Ways and Means,
Washington, D.C.

The committee met at 10:10 a.m., pursuant to notice, in the committee hearing room, Longworth Building, Hon. Wilbur D. Mills (chairman) presiding.

The Chairman. The committee will please be in order.

This morning, our first witness is Mr. Lloyd Rader. Mr. Rader, will you please come over to the witness table?

Mr. Rader is the welfare commissioner of the State of Oklahoma. We wanted him to discuss with us, this morning, coordination of Federal programs with medical assistance and other grant-in-aid programs and such other points as he may wish to bring to the attention of the committee.

Mr. Rader is recognized as one of the outstanding welfare commissioners among the States. We are pleased to have you with us today, Mr. Rader, and if you have a statement that you prefer to make before responding to questions, we will be glad to have you make it.

STATEMENT OF LLOYD E. RADER, WELFARE COMMISSIONER, STATE OF OKLAHOMA

Mr. Rader. Thank you, Mr. Chairman.

I do have a statement, Mr. Chairman, and if it is agreeable, I would be glad to read it.

The Chairman. Before you begin, do you have copies of it?

Mr. Rader. Yes, sir; they were distributed yesterday, Mr. Chairman.

The Chairman. Go right ahead.

Mr. Rader. Mr. Chairman, members of the committee, my name is L. E. Rader. I am and have been since November 15, 1951, director of public welfare in Oklahoma. The operations of the Oklahoma Department of Public Welfare since 1951, have expanded from the four categorical assistance programs, old-age assistance, aid to the blind, aid to families with dependent children, and aid to the permanently and totally disabled, and a limited child welfare program, so that it now includes the administration of the crippled children's program, medical care for public assistance recipients, medical assistance for the aged, a broader child welfare program, operation of two State homes for dependent and neglected children, four training schools for children, three schools for mentally retarded, collection of contributions for old-age and survivors disability insurance for all employees of the State and political subdivisions thereof, responsibility for compiling medical and social data on applications for disability benefits under old-age and survivors disability insurance, general assistance, and donated surplus food commodity distribution programs.

As welfare director since 1951, I have worked closely with both the Social Security and Welfare Administrations, and after having examined H.R. 1 and H.R. 3699, in terms of administrative feasibility, I feel reasonably confident these provisions are such that they can be put in effect in a manner insuring efficient administration. In the Oklahoma department's programs involving medical care for recipients of public assistance, medical assistance for the aged, crippled children's services, determination of eligibility for public assistance on the basis of incapacity, and compiling of medical information on applications for disability benefits under old-age and survivors disability insurance, my staff and I have worked closely with the medical and paramedical professions and know that such problems as can, and do, occur are amendable to solution.

I endorse in principle the provisions of both H.R. 1 and H.R. 3699, and am happy to have this opportunity to appear before the House Ways and Means Committee. These resolutions, if enacted, will make it possible for Oklahoma and the other States to have a much more adequate program of health services for their people. Since 1957, Oklahoma has been struggling to find a way to develop more adequate health care programs. We now see ahead of us, if H.R. 1 and H.R. 3699 are enacted, a manner in which we can reach the goal we have been striving for but have been unable to reach. If H.R. 1 is enacted in its present form, it would have the result of freeing approximately $7,500,000 of State funds in Oklahoma, thus enabling our State to broaden and expand into a more adequate health care program for its citizens.

During the last fiscal year, in Oklahoma, the department expended a total of $28,427,583.07 for medical care. Of this amount, a total of $20,495,962.44 was for the aged (old-age assistance and medical assistance for the aged), and of this amount $7,481,818.73 or 36.53 percent was for hospitalization.

Thus, if H.R. 1 is enacted, it would enable Oklahoma to improve, expand, and liberalize its programs of medical care for the aged, blind, disabled, and other needy groups because the State funds that would be released by the enactment of this resolution would be available for and would be used for this purpose.

For the past 7½ years, Oklahoma has operated and expanded a program of vendor medical payments for the aged; this program has been improved and broadened several times. However, our medical vendor programs for children are substantially more limited than they are for the aged and we have been seeking for some time to find ways and means of improving these programs.

H.R. 3699 would provide the financial stimulus for Oklahoma to expand and improve the health care programs for children, as well as for other groups. In reviewing the provisions of H.R. 3699, title I, section 102(a), relating to the care of crippled children, it appears that Oklahoma has, by definition, the program set out to be established.

Oklahoma law provides that the crippled children's program shall be "a program of medical care for children who are crippled or who are suffering from conditions leading to crippling, or otherwise handicapped, or who are suffering from conditions or maladies amenable to treatment."

Since the transfer of the crippled children's program to the Oklahoma Public Welfare Commission and Department of Public Welfare, July 1959, funds have increased from an appropriation of approximately $800,000 State funds, plus some Federal funds, to a total expenditure of $2,990,634.95, in the fiscal year 1963–64. The Federal share of this expenditure was $373,947, or 11.5 percent.

While the program concept in Oklahoma is broad, lack of funds have prevented full implementation. The present program provides chiefly inpatient services and care, with a very limited amount of outpatient services, and purchase of some medication and prostheses. Although the program includes in its scope orthodontia and dental care, the limited amount of funds available has not been sufficient to provide this much needed care for children. If more adequate Federal funds were made available, Oklahoma would be able to implement all aspects of the program for children proposed in H.R. 36909. This can all be done without further change in Oklahoma's law.

Oklahoma implemented the medical care program, as provided under Public Law 84–880, effective July 1957, and since that time has expended through June 30, 1964, in behalf of its public assistance recipients a total of $122,494,387.44. June 1964, a total of $12,797,269.52 has been expended and in the medical assistance for the aged program, Public Law 86–778, from October 1960 up to June 30, 1964, a total of $4,487,470.48 has been expended, making a grand total of $139,779,127.44 expended in behalf of medical care for needy people, by Oklahoma, through its Department of Public Welfare programs; of this amount, the Federal share has been approximately 40 percent.

The program for medical care in Oklahoma provides the five major items which H.R. 3699, section 1802(a)(13) sets out as basic requirements, and in addition thereto, provides nursing care, under medical direction, in the individual's own home. All of these items are provided on a somewhat limited scale, due to inadequacy of State and Federal funds, therefore, the principles contained in H.R. 1 and H.R. 3699 are endorsed, since present funds are not adequate to provide the needed health care and services.

For example, the Department had what it considered an equitable method of computing reasonable costs to pay hospitals for all inclusive care. However, since 1962, the program has been unable to meet the rising costs of hospital care, and currently, we are paying only 90 percent of the 1962 prime per diem costs of hosptials, with maximum ceilings on each type of hospital (teaching, accredited, and nonaccredited).

We have, likewise, had to reduce by 10 per cent the payments to nursing homes and physicians. Without additional Federal money, Oklahoma will not be able to maintain even these reduced payments. The provisions set out in these resolutions are such that Oklahoma would be enabled, within present State revenue, to provide a more nearly adequate health care program and meet reasonable costs of providing such care.

I strongly endorse the provisions setting forth the requirement that the free choice of physicians be maintained, which assures the basic concept of patient-physician relationship. I further strongly endorse the provisions requiring the program be under medical direction and that utilization review plans be required.

These are all excellent requirements and are ones which have already been implemented in the Oklahoma health care programs. The programs in Oklahoma are and have been under medical direction since their inception, using full-time physicians and consultants in all medical specialties (orthopedists, cardiologists, pediatricians, radiologists, pathologists, and so forth).

In addition thereto, the Oklahoma Public Welfare Commission has appointed an advisory committee, composed of medical and osteopathic physicians, hospital administrators, and nursing home operators, who meet regularly at least 10 times each calendar year. Through this advisory committee, the commission and department have excellent liaison and working relationships with the vendor associations and any changes made in Oklahoma's health care programs are made only after taking into consideration the recommendations of this committee, after consultation with their respective vendor associations.

The provisions of H.R. 3699, title I, section 103(2)(d) making available grants to institutions of higher learning for training of professional personnel to work with crippled children, particularly those mentally retarded and with multiple handicaps, will result in considerable benefit to the States, especially in the field of mental retardation. Since assuming the operations of the mentally retarded programs in July 1963, Oklahoma's Department of Public Welfare has found it very difficult to secure trained personnel to work in this field, due to lack of such trained personnel in our section of the country.

Public Law 86–778 (Kerr-Mills) established a principle of Federal participation in the health care programs based upon a share of the total expenditure made by the State. H.R. 3699, if enacted, extends that principle to all health care programs, which I strongly urge be retained in any health care legislation enacted.

On behalf of those persons in Oklahoma, who are in need of health care services, and who are dependent upon social security programs for their support, may I thank you for the opportunity to appear before this committee. I am confident that action taken by you will be based on full consideration of every aspect which so vitally affects the welfare of these people.

Mr. KEOGH (presiding). Thank you very much, Mr. Rader.

Are there any questions?

Mrs. Griffiths.

Mrs. GRIFFITHS. I would like to ask you, how long has Oklahoma furnished medical care in the home, nursing care in the home?

Mr. RADER. Since the inception of the Public Law 880, July 1957.

Mrs. GRIFFITHS. How much has it cost the State annually?

Mr. RADER. Approximately $7 million.

Mrs. GRIFFITHS. And how many patients do you take care of with that $7 million, per year?

Mr. RADER. We take care of, at the present time, about 6,000, out of a caseload of 115,000.

Mrs. GRIFFITHS. Out of a caseload of 150,000?

Mr. RADER. 115,000.

Mrs. GRIFFITHS. 115,000.

Mr. RADER. Yes.

Mrs. GRIFFITHS. Which people do you take care of. The ones that live in Oklahoma City and Tulsa, or the ones in the rural areas?

Mr. RADER. It is a statewide program. Wherever the recipient lives.

Mrs. GRIFFITHS. Well, how do you select the 6,000 out of the 115,000?

Mr. RADER. They make applications through the county department of public welfare. Based upon the physical examination by the recipient's physician if, in the judgment of the reviewing physician in the Oklahoma City office, further medical care is needed, and it is on that basis the case is evaluated, and, if indicated, approved.

Now the physician has to distinguish this between what's normally referred to as "homemaker service," you see. This is under the medical direction of the attending physician who becomes responsible, in fact, and approves the nursing attendant, who, by and large, are practical nurses. Some are registered and some unregistered, but they have had nursing experience.

Mrs. GRIFFITHS. Under this bill, you will be able to take care, I assume, of all 115,000. In your judgment, is this more or less costly than it would be to put these people in nursing homes?

Mr. RADER. Well, in the case of Oklahoma, the cost is very nearly the same. Of course as far as the mental welfare of the patient is concerned in trying to develop a program, they live in their own home and would not be removed until the last—all other avenues have been explored. The cost is very nearly the same, about $165 a month, on the average.

Mrs. GRIFFITHS. How many trips would the attendants be able to make for that $165 a month?

Mr. RADER. That is daily; they get daily nursing care.

Mrs. GRIFFITHS. Daily. I see. Will you have the personnel to handle the whole 115,000?

Mr. RADER. Of course, there will probably never be a time when the whole 115,000 would be entitled to nursing care.

Mrs. GRIFFITHS. I see. Evidently, you have the best statistics available of anybody who has come before this committee so far. Are you the only State with this, or do you know whether or not you are the only State with this much home care?

Mr. RADER. I do not know.

Mrs. GRIFFITHS. Thank you very much.

Mr. SCHNEEBELI. Mr. Chairman.

Mr. KEOGH. Mr. Byrnes, did you wish to question?

Mr. BYRNES. No.

Mr. KEOGH. Mr. Schneebeli.

Mr. SCHNEEBELI. Thank you.

Mr. Rader, how does your State deal with the hospitals under an MAA program? Directly or through an agency?

Mr. RADER. Directly.

Mr. SCHNEEBELI. I understand 30 States use the services of Blue Cross. Has Oklahoma ever considered an agent, or do you find your relationships are properly handled directly? Do you feel you have made better progress directly in arriving at proper cost, and so forth?

Mr. RADER. Of course, this is a controversial question as between many of our friends in the medical profession, and it has been recommended and we have given it due consideration, and it is the judgment of the Oklahoma Public Welfare Commission and it is my personal judgment that those matters should be handled by the State, and fundamentally, I am against delegating any governmental function to another organization.

Mr. SCHNEEBELI. You do it directly, then. Do you have any difficulty arriving at what you consider a fair figure with the hospitals on a daily rate? And is it a constant rate throughout the State, or how do you handle it?

Mr. RADER. Well, we have a formula which had been generally accepted by the hospitals since back in 1959, at the inception of the crippled children's program under the department's jurisdiction. Based on a reimbursable cost basis, eliminating depreciation and other allied and incidental expenses to get down to what is normally referred to, at least in our section of the country, as "prime cost," sometimes referred to as "out-of-pocket money," the hospitals in Oklahoma have generally accepted that principle that the payment for services in behalf of indigent people should only cover the reasonable or prime cost, and that the matter of funding the buildngs, and so forth, belongs to the county, the community, and of course Federal funds are available, and drives are put on, and so forth, so we do not pay for that replacement.

Mr. SCHNEEBELI. Do you have a rather limited MAA program? I noticed that in 4 years you spent only $4 million. That is a rather small sum in comparison.

Mr. RADER. Well, it is not as restricted as you might think. Of course, we have a fairly high old-age assistance recipient rate in Oklahoma. You see, we have in our population 270,000 persons 65 and over, and about 82,000 old-age assistance cases, and then the spouses that are covered, younger spouses, brings it up to a total of about 88,000 persons covered, and then the blind, and the totally and permanently disabled, as we operate under title XVI, and that was the reference, the figure I gave, the 115,000 is in the 3 categories.

Mr. SCHNEEBELI. Thank you, Mr. Chairman.

Mr. ULLMAN. Mr. Chairman.

The CHAIRMAN. Mr. Ullman.

Mr. ULLMAN. I want to join in commending Mr. Rader for bringing us some very valuable testimony. I think what you have pointed out is that this program will have some very important fringe benefits in making it possible to provide much more needed medical asistance to other groups in our country. Does your State, the State of Oklahoma, intend to use the savings that you will realize from this program to fill the need in other medical areas?

Mr. RADER. Yes, sir. Oklahoma has taken the position that the program should cover as many people as possible and although at times we didn't have enough money to do the job we would have liked to do—I have reference to, in the beginning, when we instituted medical care programs in all categories—old age, blind, totally and permanetly disabled, AFDC. As the formulas have been changed by the Congress, we have continued, even though there were no matching on blind, or no matching on totally and permanently, and now no matching on AFDC, we have always continued the same program, out of purely State funds.

Mr. ULLMAN. Is it your feeling that other States might realize the same benefits and use the savings to the same end?

Mr. RADER. I don't know whether they do, but I am quite sure they would, yes, sir, because as I have visited with other State directors, their problem seems to be, in general, the same as ours.

Mr. ULLMAN. I had hoped that the private insurance companies might come through with this same type of information to show the savings in their programs and how they could come up with better premiums to cover the balance of the costs of medicare insurance.

Now one additional question: Would you rather have your hospitals decide on a carrier to contract with the Secretary as an agent, rather than have secretarial management of the program? Would you rather have this done on a State-by-State basis, or on a nationwide basis?

Mr. RADER. Of course, I would hope that the Secretary or the Commissioner of Social Security would handle the program, as we do in Oklahoma.

Mr. ULLMAN. In other words, you would rather change the bill.

Mr. RADER. No. I beg your pardon. I would not say that. I think the State probably should have the choice of plan and operation, but I would certainly hate to see it mandatory taht it had to be contracted.

Mr. ULLMAN. The provision in the bill would satisfy you?

Mr. RADER. Yes.

Mr. ULLMAN. Whereby hospitals could agree on a carrier, and if individual hospitals didn't agree with the general consensus, they could contract directly with the Secretary.

Mr. RADER. I think so, yes, sir.

Mr. ULLMAN. Thank you.

The CHAIRMAN. Any further questions?

Mr. BYRNES. Mr. Chairman.

The CHAIRMAN. Mr. Byrnes.

Mr. BYRNES. In your MAA cases, do you predetermine who is eligible?

Mr. RADER. Yes, and no. It is possible to predetermine eligibility in certain type cases of elective surgery, for example. Our law covers sight endangering, such as removal of cataracts, and so forth.

Mr. BYRNES. No, I am talking about the individual that is predetermined.

Mr. RADER. Yes, sir.

So on those cases, we do predetermine eligibility, see. But on the average case, the eligibility is determined at the time of admission to the hospital, because the patient may come into the hospital, of course, and depending upon the length of the illness, be ineligible at the time, that is, capable of paying part of his own bill, and then there comes a point at which he becomes eligible.

Mr. BYRNES. But some States do have a system whereby a predetermination is made before any illness develops, so that as long as a person's financial situation remains unchanged, he will receive MAA assistance.

Mr. RADER. Yes, well, we have explored that, and of course this thing is so variable with these people, that to determine that someone was ineligible today, and he may have an illness, and take care of it in the home, and 30 days later, he would be eligible, in time for admission to the hospital.

Mr. BYRNES. You mean, because of a change in his financial situation?

Mr. RADER. Yes, sir.

Mr. BYRNES. Has your State given consideration to having any predetermination procedures? What I am suggesting is simply a system affording assurance to some people that they are going to be eligible, avoiding the necessity of filing financial statements after they are hospitalized.

Have you given any thought to the predetermination plan in Colorado?

Mr. RADER. Yes, sir.

Mr. BYRNES. But you think it is inadvisable?

Mr. RADER. I do.

Mr. BYRNES. All of your OAA cases, of course, are eligible for medical care in addition to the general OAA assistance provisions. How many OAA individual cases did you have in Oklahoma last year?

Mr. RADER. You mean since October 1960?

Mr. BYRNES. Excuse me?

Mr. RADER. Do you have reference to the total number since October 1960?

Mr. BYRNES. How many individual OAA cases did you have within a 1-year period?

Mr. RADER. Around 5,000.

Mr. BYRNES. 5,000?

Mr. RADER. Yes, sir.

Mr. BYRNES. How many of those are under social security, do you know? Can you give me at least a minimum figure?

Mr. RADER. I don't have those figures with me, Mr. Byrnes.

Mr. COHEN. I think he misunderstood.

Mr. BYRNES. Excuse me.

Mr. COHEN. I think he misunderstood you, Mr. Byrnes. When you said 5,000 cases.

Mr. RADER. That is the number we gave service to, in the average fiscal year, and as I understand, you wanted to know what percentage of those people were covered by OASI.

Mr. BYRNES. Yes.

Mr. RADER. And I don't have that figure.

Mr. BYRNES. And you didn't necessarily, in all of the 5,000 cases, provide medical care. That is your total OAA caseload?

Mr. RADER. No, the 5,000 are the people 65 and over who were given medical assistance for the aged.

Mr. BYRNES. How many of those were receiving OASI payments?

Mr. RADER. We have 82,000 cases on OAA. About 88,000 persons are involved.

Mr. BYRNES. 88,000 persons.

Mr. RADER. Yes, sir.

Mr. Byrnes. But you don't have a breakdown of how many of those are also receiving OASI?

Mr. Rader. Yes, I do, in that group, yes. About 37 percent are receiving OASI.

Mr. Byrnes. Fine. Thank you very much.

Mr. Rader. As a matter of fact, I could give that to you. I do have it with me, yes. In our population, there are 170,047 persons who have qualified, and are drawing their OSDI payments. Now the 82,046 cases, about 88,000 persons that are drawing a money payment, and of that amount, that number, 31,506 are drawing both, you see, when we were supplementing up to our standard. And there are 50,940 who have no income, no fixed incomes, such as OSDI, or any other fixed income, like the railroad retirement.

Then that leaves 41,750 who draw neither, see; they either haven't retired, or they didn't qualify, or whatever the reason might be.

Mr. Byrnes. Yes. But you have a caseload, then, of about 82,000.

Mr. Rader. Cases, yes, sir; that's correct.

Mr. Byrnes. And 31,000 of those cases will receive the benefits of the King-Anderson bill. That's the group.

Mr. Rader. Yes, sir.

Mr. Byrnes. In terms of the social security aspect.

Mr. Rader. Well, of course—yes, sir; that's correct.

Mr. Byrnes. And then 50,000 will receive it on the basis of persons covered under the King-Anderson who are not drawing social security benefits.

Thank you very much.

Mr. Rader. There will be a supplementation. We will pick up where the social security insurance would leave off, if need still exists, you see. We would use the seven and a half million State dollars to do it.

Mr. Byrnes. Oh, I understand that, that this King-Anderson isn't going to cover their medical needs.

Mr. Rader. That's right.

Mr. Byrnes. Oh, I understand that, but then you have another group, also, of course, that would be eligible under King-Anderson, who aren't getting public assistance, and aren't getting AOSI benefits, but who would also be eligible under this.

Mr. Rader. Right.

Mr. Curtis. And that number is the 41,750 you gave us?

Mr. Rader. That are drawing neither social security nor old-age assistance.

Mr. Curtis. That's correct. And those are your people presently over 65 in Oklahoma who would get the benefits.

Mr. Rader. Yes, if elgibile; yes, sir.

Mr. Curtis. I guess those are higher income people. Is that right? Or do you know?

Mr. Rader. I would not know, sir.

The Chairman. Any further questions?

If not, again we thank you, Mr. Rader, for coming to the committee. We appreciate your coming.

Mr. Rader. Thank you, Mr. Chairman.

The Chairman. Mr. Cruikshank, Mr. Glasser, Mr. Lesser, Miss Bamberger.

STATEMENTS OF NELSON CRUIKSHANK, DIRECTOR, DEPARTMENT OF SOCIAL SECURITY, AMERICAN FEDERATION OF LABOR-CONGRESS OF INDUSTRIAL ORGANIZATIONS; MELVIN GLASSER, DIRECTOR, SOCIAL SECURITY DEPARTMENT, UNITED AUTO WORKERS OF AMERICA; LEONARD LESSER, ASSISTANT TO THE PRESIDENT, INDUSTRIAL UNION DEPARTMENT, AFL-CIO; AND MISS LISBETH BAMBERGER, ASSISTANT DIRECTOR, DEPARTMENT OF SOCIAL SECURITY, AMERICAN FEDERATION OF LABOR-CONGRESS OF INDUSTRIAL ORGANIZATIONS

The CHAIRMAN. We are always pleased to have you with us, Mr. Cruikshank, and the others at the table with you. If you have a statement that you would like to make to us before we begin interrogating you, we would be glad to have it.

Mr. CRUIKSHANK. Thank you, Mr. Chairman and members of the committee. I do have a short statement. Copies of it, I believe, are being made available to the members of the committee.

My name is Nelson H. Cruikshank. I am director of the department of social security of the AFL-CIO. I am accompanied by Lisbeth Bamberger, assistant director of the social security department of the AFL-CIO; Melvin Glasser, director of the social security department of the United Auto Workers; and Leonard Lesser, assistant to the president of the industrial union department, AFL-CIO.

We appear before you in response to your invitation to discuss with you the question of how collectively bargained health insurance plans could and would be adjusted to the existence of a governmental program providing hospital and related benefits to persons aged 65 and over.

First, it is important to note in this connection that negotiated health plan coverage of retired persons is extremely limited. Most companies still do not extend health insurance coverage to retired workers. Plans that do provide such coverage usually extend benefits only to retirees with records of long and continuous service; they are of no avail to the majority of workers who—willingly or unwillingly—change jobs during their working lives. They serve the fortunate minority who work continuously for a single forward-looking employer and belong to a strong union. Futhermore, what protection these plans provide is usually available only during the retiree's lifetime—where there is coverage of his wife, it usually does not continue after his death. Typically, there is a ceiling on total lifetime benefits, and workers who lose their jobs before retirement because of technological unemployment or other reasons are ineligible for benefits.

Benefits for retired employees are almost always reduced from those available to active workers, and are usually inadequate.

Plans arranged for or negotiated by the union may be out of reach of the retired person, and entail severe financial sacrifices where, as in most plans, a contribution is required from the retired person. Most plans of health coverage for retired employees require some contribution from the retired worker; often the retired person must pay the entire amount; where the employer does contribute, his payment is usually limited, and often the retired person must bear the cost of any increase in premiums.

This picture of weak and scanty protection for only a relative few would be totally changed with the enactment of health insurance for the aged through social security. Everyone over 65 would have basic protection; for those that now have some protection, coverage could easily be adapted to supplement the benefits provided through the Government program.

We are grateful that we were asked to appear before your committee to discuss an issue so amenable to solution as that of how collectively bargained plans could be adapted to the enactment of social security health insurance. If you had asked us how collectively bargained plans—for active workers and retired persons—could continue successfully without such legislation, we would have no such ready answer.

The pluralistic approach to our major social problems has become in this century the typical American approach. It has worked in the pension field, with basic protection provided under the Government social security program, supplemented by a multitude of private plans. It is the only practical approach to the knotty problem of health care for the aged. With a basic social security plan, private plans—which could never do the job alone—can continue and even flourish.

We anticipate that there will be no difficulty in adapting existing health insurance coverage to supplement the Government's program, in both individual and group insurance. This committee may already have heard from some of the organizations which sell health insurance regarding their specific plans to accomplish this end. The adaption of plans negotiated through collective bargaining presents no additional problems. Some labor-management contracts already have made the necessary provisions for such adaption, in anticipation of passage of legislation. Where such provisions have not already been made, we expect to encounter no difficulties in making them. The course for labor and management—to supplement rather than duplicate the benefits available under the Government program—is clear, and can be implemented readily.

Now, Mr. Chairman and members of the committee, as those of you know who are acquainted with the structure of the American labor movement, we realize that we in the AFL-CIO headquarters in Washington have a general responsibility for policy and policy implementation in this area. Since your committee staff specifically asked us to address ourselves to this problem of negotiated plans, we realized, as you do, that we are one or two removes from the actual bargaining table where these matters are thrashed out between management and the representatives of the organized workers, and discussing it with the committee staff, it was agreed that it would be useful to the committee if we could have with us this morning people who have actually engaged in the collective bargaining process at the collective bargaining level, and for that purpose, we could have brought in a number of people, but we asked that Mr. Glasser and Mr. Lesser, who have been active in the recently completed negotiations in the automobile industry, and if I may, I would like to ask Mr. Glasser at this time to give you some view of the result of those negotiations as they relate to the problem that we were asked to comment upon.

The CHAIRMAN. Thank you, Mr. Cruikshank. And Mr. Glasser, we will be pleased to have you do so.

Mr. GLASSER. Thank you.

Mr. Chairman, members of the committee, I do not have a formal and certainly not any lengthy statement. My primary function here, as is that of Mr. Lesser, is answering questions you may have.

Briefly put, in the recently concluded negotiations with the major automobile and agricultural implement manufacturers, the UAW negotiated a series of extended—and by "extended," I mean over and beyond what we had had in previous contracts—benefits in the health care field, which apply to all our members, but which have particular relevance here for approximately 150,000 retired members, and in the neighborhood of 100,000 to 125,000 wives and other dependents, who are also covered.

The most significant aspect of this coverage, as far as these members are concerned, was that until the new contracts were signed in the fall of 1964, the covered employees paid one-half of the premiums. Under the new contracts, the employers pay the full premium, and there were certain other extensions in benefits.

The one which will be of great interest to this committee is the convalescent and nursing home care benefit, which is a new benefit which becomes operative in the fall of 1966, through which for every unused hospital day, there are available two nursing home days to the persons covered under the contract. We have 365-day hospital coverage, so it is everything less than 365 is matched on a 2-for-1 basis.

There are two other restrictions. One restriction relates to the fact that this coverage is not for what we call custodial care. It is primarily for either treatment following hospitalization, or for treatment in relation to terminal necessity, rather than simply custodial, and the second is that the care is to be in an approved facility, which is to be defined by the corporations, the union, and the carriers with whom we write the insurance.

Now that, in essence, is the role. The question has been raised, what effect would the passage of this proposed legislation have on these contracts? In terms of the benefits immediately, none, because we have written provisions in the contracts—I will take the liberty of reading one sentence from the General Motors agreement, and the other agreements are substantially the same—and it says as follows:

> Hospital or medical expense benefits, or both, provide employees or former employees, including retired employees under article 3, may be reduced by the amount of such benefits provided under any Federal law.

And this was written with the specific intent in mind that, if there were this legislation, this would happen. Well, as you ladies and gentlemen know, the way in which these contracts are negotiated, they are negotiated in terms of money, primarily. How much will it cost? So if this new legislation were to go into effect in 1966, and with the recognition that our contracts will be up in 1967, the savings that would be effected in terms of costs to the employer would make it possible to make available more extended benefits in other areas, not now covered by either the legislation or contracts. And as you well know, the costs of medical care are very high, particularly for the elderly, and the passage of such legislation would make it possible to provide through the private sector of the economy; namely, through collective bargaining, more extensive benefits.

Now that is the only specific point I wish to make. If I may take 1 more minute, Mr. Chairman, may I simply make a comment on a related matter? And that is, I am not certain that there has been made clear in these hearings another peripheral effect of this possible legislation. In the State of Michigan, we have one of the few community-rated Blue Cross-Blue Shield systems remaining. Most of them have gone to experience rating, where each employer is rated, or each group of employees is rated, on the basis of their experience, and the rates are then set.

We in the UAW in Michigan feel, and a great many others feel with us, that it is of the highest importance wherever possible to preserve the community rating system, because by setting a rate across the community, the disadvantaged are given protection, given protection in that employers that have higher percentages of older people or retired people, as well as the retired people themselves, the partially employed, the unemployed, get the group rate, rather than the rate which would be set for their own experience, which obviously, would be higher. The experience has been in every place where they have gone to experience rating that the disadvantaged have slowly but surely been priced out of the market so that we have been very anxious to preserve the community rating in the State of Michigan, and we have been working very hard on it.

Well, part of the problem is just plain cost, and one of the major problems that we are having is that with the increasing costs in hospital care, and with the increasing competition from the private insurance industry, they find it difficult to keep the books balanced. Well, in one estimate given by the Blue Cross organization in Michigan recently, the passage of this proposed legislation would save $16 million a year for the Blue Cross organization in Michigan. This is at the moment a very substantial sum, and would actually keep that organization in the black for some time to come. It will have other peripheral benefits that I shall not discuss at this point, but while it is not a major focus of these hearings, I know, I think I should bring in that it would help to preserve this nonprofit Blue Cross system, and help to preserve the system that will protect the disadvantaged in the volunteer sector, just as it would do something about them in the public sector.

The CHAIRMAN. Thank you, Mr. Glasser.

Mr. Lesser?

Mr. LESSER. In the industrial union department we do work in coordinating the collective bargaining in situations where various unions deal with a single employer. We have been involved in these negotiations. I personally have also been involved in the auto negotiations. Our experience has basically been the same as that described by Mr. Glasser, that in all negotiations, even where there is no specific contract provision, there has been a discussion of the effect of the possible passage of legislation, such as that which you are considering; and the assumption has always been that the passage of such legislation would simply permit an adjustment of the benefits to supplement those benefits provided by any legislation you might pass, and this would cause no problem at all.

The CHAIRMAN. Thank you, Mr. Lesser.

Miss Bamberger, do you desire to say anything?

Miss BAMBERGER. Just a very brief comment. It occurred to me while I was listening to Mr. Glasser that the point that Mr. Cruikshank made in his opening statement probably needs to be reemphasized. That the people who do have some health insurance, after retirement, as a result of a collective-bargaining agreement, are not typical of the aged, and are by far the most fortunate of the aged. These are people who generally have higher incomes in retirement. Those that have some benefits through collective bargaining are not typical, and those that have the extensive benefits that Mr. Glasser described that retired auto workers have are even less typical of the aged as a whole.

The CHAIRMAN. Thank you, Miss Bamberger.

Mr. ULLMAN. Mr. Chairman.

The CHAIRMAN. Mr. Ullman.

Mr. ULLMAN. Mr. Glasser, I was particularly interested in your comments on the advantages to other segments of the population of this kind of a program. You certainly have reinforced what the previous witness has told us, that this will be a great boon to needed medical assistance for other groups in our population.

I was interested in your comment on Blue Cross in the State of Michigan. I attempted, when we had a witness here, to extract from him the admission that this program would save some of the State organizations from financial difficulties, and could not get this kind of a response, so I appreciate having it in the record.

You have had extensive experience with carriers. Do you contract with different carriers?

Mr. GLASSER. I regret to say we have to. In other words, we have members in almost all the States in the Union, and we then, with the companies, with the manufacturers, have to go to the carriers and contract for this prescribed set of benefits with each of the separate Blues, so that actually, we deal with almost all the Blues, and a great many of the commercial insurance companies.

Mr. ULLMAN. Well, this program would go to all of the States, too, and it has been generally prognosticated here that the probable carrier would be Blue Cross, and probably on a nationwide basis. With the experience you have had in this field, I would like to have you comment on the carriers, and your experience with them in handling that type of a program.

Mr. GLASSER. You are talking about the Blue Cross, National Blue Cross, being the possible administrator of the program?

Mr. ULLMAN. That's right.

Mr. GLASSER. I see.

Mr. ULLMAN. The hospitals would have the option of dealing with a carrier, and the most likely carrier would be Blue Cross.

Mr. GLASSER. Now, our dealings with the Blue Cross organization have been excellent, and we have worked together very closely over the years, and we have the greatest admiration for both their devotion to their job and their integrity. There is no question about that, and we are among the leading supporters of the Blue organizations to the extent that we actually use members of my staff to go out and convince locals, employers, and otherwise, who wish to shift to other types of programs, of the importance, because of the community aspects, of staying with the Blues. So that our record is clear in that respect.

And I make this introduction, Mr. Ullman, only so that I can explain that I do have considerable reservation about this possible alternative of using the national Blue Cross as the administrative agency in this program.

I have a reservation, I think, for three reasons: One, our concern about the administration of standards, quality, and utilization. The Blue Cross organization is basically an organization of the hospitals, and we see from our own experience that they have very considerable problems in keeping up quality and in holding hospitals to the development of utilization committees, and in administration of standards. Not because the Blues are uninterested in that. That is contrary to the fact. We are interested because there is a real problem, and I think there would be a greatly exaggerated problem if the administration of this program were given to Blue Cross. There is a problem in the fact that the Blues do represent the hospitals, basically, and then we say, "You represent the hospitals, but you would also have to represent this program and see to it that standards of utilization, et cetera, are maintained." This has been a problem.

In our experience with the Blues around the country, they have made real efforts, for example, to control overutilization. Those efforts have not met with a great deal of success. They have met with minimal success. We believe partly it is because of this dual role that they have been forced into, and we believe that this would be a problem, if this program were turned over to them.

In the second place, I am not sure that they have had sufficient experience. The national Blue Cross organization is not a monolithic organization, as you gentlemen and ladies know. It is an organization which is in essence a, shall I say, holding company for the Blue Cross organizations around the country, and they are not nearly as experienced as one would think, if one speaks of a national organization. They are primarily a factfinding, standard-setting, coordinating group, rather than an operating group, which would be the function that they would have, if this legislation were passed so that they would handle the administration.

And the third question is the public responsibility, if you please, for the handling of these funds. The Blue Cross boards around the country are made up by a variety of methods of so-called distinguished citizens, prominent, public-spirited citizens. The composition is uneven. Their makeup is uneven. That's perfectly understandable, in a voluntary kind of organization, but I am not certain that their makeup is such that they are truly representative of all elements in the community, as would be essential in a program where public funds are expended. So our preference in the UAW would be that standards certainly need to be set as they are in this legislation, and that if State health departments have a program designed to maintain these standards, and set up proper boards and set up proper controls, we would prefer to see the administration through the States.

Mr. Ullman. Through the States?

The Chairman. Through the States? Through each State health department?

Mr. ULLMAN. I have been raising this issue from time to time with the different witnesses, because I think it is an important matter. In other words, rather than a national carrier, you think it would be better to do this on a State-by-State basis?

Mr. GLASSER. Well, what we are talking about here is a Federal program with administration, where the administrative agents selected could be, wherever possible State health departments.

The CHAIRMAN. Would you yield to me there a moment?

Mr. ULLMAN. Yes, sir.

The CHAIRMAN. Mr. Glasser, as you studied the legislation, is it possible for, say, the Hospital Association of Michigan, or Arkansas, to decide that the State health department would be the third agent? Can that be done under the legislation as it is now written? For any one of these purposes. Say they wanted it to be the agent for purposes of utilization rate, utilization work, or for standards. I am asking the question because I thought the selection by the hospital of a third party to do any one of the functions set forth in the bill had to be Blue Cross or insurance companies, or third parties other than Government.

Mr. CRUIKSHANK. May I comment on that, Mr. Chairman?

The CHAIRMAN. I am not disagreeing with your point. I am thinking whether or not the legislation would have to be amended to carry out your point.

Mr. GLASSER. I am sorry. I can't answer it in those terms. Perhaps Mr. Cruikshank.

Mr. CRUIKSHANK. First we would think that there would need to be the Federal standards for determining the agencies eligible for participation, as providers of series. That's another thing from the determination of costs and so forth that would be reimbursed under the system. The Federal standards could certainly be applied by the use of the facilities of State health departments. We have never objected to the use of some agency such as Blue Cross to represent the providers of services where it is equipped to do it, and as Mr. Glasser has said, there is a great uneveness between the 80, I believe it is, Blue Cross plans, now, isn't it?

Mr. GLASSER. Yes.

Mr. CRUIKSHANK. There is a great uneveness there, but where they are equipped to do it, and the local hospitals or other providers of care wish to select that agency to represent them in the determination of these costs, and if they meet the requirements of the Secretary, then there is no objection to that. If the providers want what we in labor would call a business agent to work with them, within the framework of the Federal standard that is all right but this is quite different from giving them the responsibility for administration.

The CHAIRMAN. There is a great deal of difference between having someone between you and Government to make a payment, and then someone between you and the Federal Government to enforce standards, or to seek to review utilization rates, and things like that, and I was very intrigued with Mr. Glasser's observation, which is the reason I asked about the bill.

On page 45—if you will continue to yield—on page 45 of the bill, Mr. Cruikshank, you will notice that prior to section 1815, the subtitle, "Use of Private Organizations To Facilitate the Payment to

Providers of Services," but in the language of section 1815, it says "The Secretary is authorized to enter into an agreement with any organization * * *." Presumably any organization would include a State organization?

Mr. CRUIKSHANK. Certainly.

The CHAIRMAN. I would think it would.

Mr. CRUIKSHANK. It could be the State hospital association, although I think that there would be a question that they want to want to do it ,but that is up to them. However, it could be State Blue Cross organization, area Blue Cross. And it could be a State health department.

The CHAIRMAN. I was most intrigued with the observation of Mr. Glasser that the State health departments could be brought into it to perform a part of this function and do it better than some agency such as Blue Cross. I thought that this was a contribution to our consideration.

Mr. GLASSER. Mr. Chairman, I think the relevant section to these comments in addition to the one that you indicated is on page 27, section 1808.

The CHAIRMAN. Twenty-seven.

Mr. GLASSER. Yes, page 27, section 1808, at the bottom of the page, line 19.

The CHAIRMAN. That very clearly allows for the State agency to do that, does it not?

Mr. GLASSER. Yes, sir.

The CHAIRMAN. This is what you had in mind.

Mr. GLASSER. Yes, sir. I am supporting that notion strongly, sir.

The CHAIRMAN. That is not the fiscal agent part of it. That is the standards part.

Mr. GLASSER. Yes; and this is the area where we have great concern.

The CHAIRMAN. May I ask one additional question? What about the utilization problem in hospitals? Would you use this State agency in that connection?

Mr. GLASSER. Unequivocally; yes, sir.

The CHAIRMAN. That is what I thought you were saying.

Mr. CRUIKSHANK. Just to underscore this, Mr. Chairman, I hope not to belabor the point, the real distinction as we see it is on page 45, 1815(A) section. It is one thing to have the hospitals designate an agency for their dealing with the Federal Government, and that is acceptable to us, of course, but quite another thing to have the Federal Government delegate its responsibilities to an outside agency.

The CHAIRMAN. That should be done through the State agency?

Mr. CRUIKSHANK. Yes; but to delegate to the private organization the Federal responsibility is the thing about which we have these most serious reservations.

The CHAIRMAN. It is altogether different between the fiscal agent and the agent that is designated to see that standards are maintained or utilization rates are properly carried out and so on. It is a good distinction. Thank you.

Mr. ULLMAN. Let me get this clear in my own mind now. You say the most important aspect of the problem is the setting of the standards. You would not object then to the provision of the bill that would allow the hospitals to choose and the Secretary to designate

Blue Cross as the nationwide administrator of the program? I thought in your previous remarks you had objected to that feature but from what you just said I understood that you weren't particularly concerned about that aspect.

Mr. GLASSER. Mr. Ullman, let me restate. I would object to that, yes, sir. I would not object to the use of private organizations to facilitate payment to providers of service, but I would object to the Blue Cross organization as a nationwide administrator because in that process I believe the objectives outlined at the bottom of page 27 and page 28 would be reduced or in my judgment made largely ineffective because I think in the process of administering the program the whole question of the provision of consultative services, the qualification of hospitals, et cetera, which then goes to the administrator, would in my judgment be not as well done by a national Blue Cross organization as by State agencies certified by the Department of HEW, State health departments.

Mr. ULLMAN. You confirm my fears, and I have raised them from time to time throughout these hearings. The way the bill is written I am satisfied that at this time we can assume that the Department, after of course consultation with the hospitals, will contract on a nationwide basis with Blue Cross to administer the program.

I may be wrong.

Mr. CRUIKSHANK. I don't believe that is contemplated in the bill.

Mr. ULLMAN. It may not be contemplated in the bill, but it is allowable in the bill. I have raised this issue time and time again and I think the record is very clear here that that is the way it would be handled. If I am wrong I am sure the Department will set me straight, but the record as of right now indicates that this is not only possible, but is probable. I have consistently raised the issue that it might be better to have the fiscal agent vary from State to State.

Isn't it true, Mr. Glasser, that if it were to be done the way you recommend, the choice of carrier would have to vary from State to State?

Mr. GLASSER. Yes, sir, and may I respond to you by claiming no competence in the legal interpretation of the bill. I claim none. The way I read it it is possible, but not required, that the Blue Cross organization could be designated as the administrative agent.

I am pleading with the committee that this possibility not be utilized.

Mr. ULLMAN. Then would you do something for me? Because I concur in your viewpoint that this should mandatorily be done on a State-by-State basis and that we further make it crystal clear that the State health agencies could administer the program, would it be possible for you to get your counsel to look very carefully at the bill and submit to me so I can submit it to the committee language that would do what you have recommended?

Mr. GLASSER. I would be delighted to do so.

(The following letter was received by the committee:)

AMERICAN FEDERATION OF LABOR AND
CONGRESS OF INDUSTRIAL ORGANIZATIONS,
Washington, D.C., February 9, 1965.

HON. WILBUR D. MILLS,
Chairman, Committee on Ways and Means,
U.S. House of Representatives, Washington, D.C.

DEAR CHAIRMAN MILLS: You will recall that when Miss Bamberger, Mr. Glasser, Mr. Lesser, and I appeared before your committee on February 5, Congressman Ullman asked Mr. Glasser to provide further comments and suggestions on the matter of how H.R. 1 relates to the possible role of the National Blue Cross organization. In response to this request, we have reexamined the provisions of H.R. 1 in this respect and are pleased to have this opportunity to restate our views.

It appears to us that the proposed legislation makes it possible for the National Blue Cross organization to be used in at least two important ways:

1. To receive payment for a group or association of providers of services, and to determine, in accordance with policies laid down by the Secretary of HEW, the amount of payments required by the providers of services. (This is dependent upon the Secretary's entering into an agreement with National Blue Cross and any or all of the providers of service, designating Blue Cross as their agent—section 1815(a).)

We believe this is a sound proposal and support it.

2. To act as the national administrative agent of the program (upon agreement with the Secretary of HEW)—section 1815 (b), (c), (d), (e), (f), (g).

Despite our admiration and respect for the National Blue Cross organization and the important work it carries on in the health care field, we would oppose any provision making it possible to turn over administration of the program to this nongovernmental agency.

(*a*) Such action would in our judgment make for a conflict in roles. The Blue Cross organization is essentially a creature of the hospitals. This would make it exceedingly difficult for the same organization to implement federally promulgated standards, safeguard quality of care, assure controls on utilization, etc. Blue cross cannot serve two masters simultaneously and do justice to both.

(*b*) The boards of directors of Blue Cross plans across the country are of varying composition. They are not necessarily representative of the total community, as would be an essential requirement in a board controlling the supervision of a public program with public funds. These boards also differ substantially among themselves in their organizational makeup.

(*c*) The National Blue Cross organization has not had substantial experience in administering nationwide programs. The overwhelming majority of coverage is provided by State and local Blue Cross plans. These local plans vary considerably in their coverage, standards, administration, and organization.

It is our considered judgment, in sum, that while Blue Cross could perform a useful function in this program as agent for the providers of service, it would be inappropriate and inadvisable for the Federal Government to delegate its responsibilities under the program to this private agency.

We believe it would be in the public interest, in that it would assure more effective responsiveness to public needs, and greater likelihood of development of quality care with sound utilization controls for the Secretary to be required to utilize the provision of section 1808(a), and thus use the official State departments of health as the administrative agents, in those States where:

(*a*) The State health department meets criteria and standards developed in advance by the Secretary—including representative public advisory boards.

(*b*) The State health department can demonstrate its willingness and capacity to carry out these administrative functions.

In the event the Secretaryof HEW determines a State health department is not able or willing to be the administrative agent for this program, we believe the Secretary should be required to arrange for direct Federal operation of the program in that State through augmentation of the existing HEW organization in that area.

We believe the above-stated considerations are vital to the achievement of the objectives of this program and therefore appreciate the opportunity to bring them to your attention and to the attention of the members of the Ways and Means Committee. We respectfully request this letter to be made a part of our statement presented on February 5 and inserted at the appropriate place in the record.

Sincerely yours,

NELSON H. CRUIKSHANK,
Director, Department of Social Security.

The CHAIRMAN. Any further questions?

Mr. BYRNES. Mr. Chairman.

The CHAIRMAN. Mr. Byrnes.

Mr. Byrnes. Do you have the total number, Mr. Cruikshank, of retirees that are presently covered under company plans?

Mr. Cruikshank. We don't have that total number. We have made some spot checks on it and find it really to be negligible, and where they are they have these very serious limitations.

Mr. Byrnes. I understand the basic premise, but I just wondered if you had the information that you could substantiate and give us the figures on them rather than a generalization.

Mr. Cruikshank. We have some figures. Miss Bamberger, do you have them there?

Miss Bamberger. What we do know something about is the number of plans that extend coverage to retired employees. What we don't know is the number of persons that are covered.

Mr. Byrnes. Are those plans broken down by employers?

Miss Bamberger. Yes.

Mr. Byrnes. In other words, Ford Motor Co. would be just one plan even though it covers a multitude of different plans and so forth.

Miss Bamberger. We don't even have the total number of plans, but we have some indication. For example, the Department of Labor studied 300 major plans. Of those, 115 extended some health benefits to some retired workers. We also know that in Ohio, for example, of firms that have health insurance plans, less than 20 percent of the firms that had fewer than 100 workers, 31 percent of the firms that had 250 to 500 employees, and 44 percent of those with 500 or more employees provide some health insurance to some retired workers.

Mr. Byrnes. What years are those figures based on? How recent are they?

Mr. Lesser. This is the 100-plan study. This was done in the winter of 1961–62 and I think this was the latest one that the Department of Labor put out. It was put out in June of 1962.

In connection with that, I asked some of our people in the industrial union department who work with some of these industries to try to go through some of the compilations we did and see what they could come up with.

This is quite sketchy obviously because we don't deal with all industries, but some of the bigger ones, for example, the steel industry, has nothing as of this time in terms of coverage for retired workers.

I can just read through this, and I just got this this morning and haven't had a chance to check on it. We also went through the compilations to try to find out what some of the benefits were where they are provided, and in many cases where benefits are provided there are limitations on the lifetime amount.

For example, in one company in the chemical industry, American Cyanamid, there was a limit of $2,500 and then if you want to reduce your life insurance by another $1,000 you can extend your lifetime limit to $3,500.

Mr. Byrnes. Do they have a recoupment provision? Once you have used $2,500 and then if you go for a period each year do you get——

Mr. Lesser. No.

Mr. Byrnes. Some plans do have that factor in them.

Mr. Lesser. Yes. Some major medical plans do, but generally for retired workers these are lifetime limits. In other words, there is no possibility of reinstating the amount again.

So it is quite varied, but on the basis of our experience the extent of coverage is limited.

Miss BAMBERGER. If I might make just one additional comment, we did last summer survey our affiliated unions to find out what their current situation was. We weren't able to do a total and exhaustive survey, but we did get some indication. We found, for example, that there were a number of major unions that said that between only 3 and 5 percent of their current members will become eligible at retirement for health insurance benefits obtained through collective bargaining.

Now, the figures I gave you previously about the number of plans that extend coverage also include those that only permit conversion to an individual plan, with the cost paid by the retired individual.

As the committee is probably aware, New York State has made it mandatory that people have the right to convert their group coverage to individual coverage, and one of the unions that responded to our survey that has a concentration of membership in New York said that less than 1 percent of its retired members who were eligible to convert to individual policies have in fact converted their group health insurance to individual health insurance because of the high cost. That is what we mean by the spotty, sparse protection.

Mr. BYRNES. There are so many different plans in this field. It is almost impossible to generalize in many cases. Maybe we can get some specific information, because it appears that UAW is advanced in obtaining a program for retirees in this field.

Mr. Glasser, you have the agricultural implement contracts and the automobile contracts. Are there any other industry contracts?

Mr. GLASSER. Yes, we have a good many of the aerospace, which includes aircraft.

Mr. BYRNES. Has that industry included a program for their retired workers?

Mr. GLASSER. Not to this extent, no, sir.

Mr. BYRNES. To what?

Mr. GLASSER. The answer is no.

Mr. BYRNES. They haven't. The automobile industry is complete, isn't it?

Mr. GLASSER. Yes. Excuse me. I am defining automobile to also include the related supplier industries.

Mr. BYRNES. Right. And what about the agricultural implement contract?

Mr. GLASSER. Yes; it is essentially the automobile pattern.

Mr. BYRNES. Who can advise me about the chemical industry?

Mr. LESSER. I have some information on the chemical industry.

Mr. BYRNES. I understand in all of Du Pont's operation they have a plan for their retired employees.

Mr. LESSER. Du Pont is unorganized. I don't have that.

Mr. BYRNES. I didn't mean to bring that up. I didn't even realize that fact.

Mr. LESSER. I don't have the information on it. I do have Dow Chemical, for example, though, and the summary I have of Dow Chemical is that the benefits are the same except that the total payments, which means the lifetime payments, are limited according to years of service with the company.

As an example, for 13 or fewer years there is a maximum of $500 in payments, so if you work with the company 13 or fewer years the most you can collect after retirement is $500.

The CHAIRMAN. That is for the remainder of their life, is it?

Mr. LESSER. That is right; 20 years, $1,320 maximum; 23 years cr more, $1,650 maximum.

Mr. SCHNEEBELI. Will you yield?

Mr. BYRNES. Yes.

Mr. SCHNEEBELI. Mr. Lesser made a statement that none of the steel industries had a program of this type. What about that new Allen-Wood contract?

Mr. LESSER. The new what?

Mr. SCHNEEBELI. Allen-Wood contract. Isn't that quite a good retirement coverage and isn't this the prototype that you are going to demand of all the steel industries?

Mr. LESSER. The only thing I really know of the Allen-Wood contract is that it is a very good contract in employment security.

Mr. SCHNEEBELI. Also it has something to do with coverage of retirement, too, I believe.

Mr. LESSER. I will check that.

(The following material was received by the committee:)

INDUSTRIAL UNION DEPARTMENT,
Washington, D.C., February 16, 1965.

Hon. HERMAN T. SCHNEEBELI,
House of Representatives,
Washington, D.C.

DEAR CONGRESSMAN SCHNEEBELI: In accordance with our discussion at the February 5 session of the House Ways and Means Committee, I have checked as to the health benefits provided for retired workers under the Allan-Wood collective bargaining agreement with the United Steelworkers.

The only provision for coverage is an arrangement whereby the retired employees are treated as a group in order to permit them to secure some benefits. The benefits which are available are more limited than those which were available to them as active employees and the Allan-Wood Corp. pays no part of the cost of providing these benefits.

The entire premium is paid by the retired employees even though they were not required to make any contribution during the period of their active working life.

I am also enclosing a copy of the insurance agreement between the General Motors Corp. and the UAW together with a summary of the health benefits. I am furnishing a sufficient number of copies of this agreement and the summary to Leo Irwin for all members of the committee.

Very truly yours,

LEONARD LESSER,
Assistant to the President.

[News release, from UAW, Detroit, Mich, Jan. 18, 1965]

UAW EXPLAINS NEW BENEFITS PROVIDING MENTAL HEALTH, CONVALESCENT, AND NURSING HOME, PRE- AND POST-NATAL CARE PAID FOR BY EMPLOYERS

Publicity surrounding the improvements in pensions achieved by the UAW in its 1964 negotiations with the U.S. auto and farm implement industries may have tended to obscure notice of the union's accomplishments at the same time in three other benefit areas—mental health care, convalescent and nursing home care and pre- and post-natal care.

All these new benefits will begin in the fall of 1966.

At that time, more than 2,450,000 UAW members and their families—including retired workers and their dependents—will begin to receive these long-term benefits and care as part of their hospital-surgical-medical program for which the premiums will be completely paid by the employers.

For your information, a summary describing these new benefits in some detail has been prepared by the UAW social security department. It is attached.

A PREFATORY NOTE

In view of the new ground broken by the UAW in its 1964 negotiations in the areas of prepaid mental health care, convalescent and nursing home care and pre- and post-natal care, it was felt that a review of these new programs—short of the exact contractual language—might be of interest and use to those more intimately involved in this work than the general public.

In venturing into this area of benefits for industrial workers, the UAW welcomes comment, inquiries and suggestions from those persons and organizations whose aim, like the UAW's is to see that the broadest possible health protection (by a method within their financial reach) is made available to the largest possible number of people who need it most.

Melvin A. Glasser,
Director, UAW Social Security Department.

New Health Insurance Benefit Programs for UAW Members Employed in the Auto and Agricultural Implement Industries and Their Families

The International Union, UAW, is pioneering in three new health care benefit areas as a result of 1964 negotiations with the major U.S. automobile and agricultural implement firms.

Beginning in September 1966, more than 2,450,000 UAW members and their families (including retired workers and their dependents) will be covered by an improved and extended mental health care program, and by a new long-term convalescent and nursing home care benefit. UAW female employees and wives of male employees will receive a new pre- and post-natal care benefit beginning on the same date.

Premium costs for the comprehensive hospital-surgical-medical programs into which these new health care benefits will be integrated are paid for entirely by the employers.

Mental health care program

What happens to an automobile or agricultural implement worker or member of his family whose daily activities are disturbed by mental or emotional distress? Too often these occurrences meant unremitting misery and hardship to the afflicted and their families. Previous health insurance policies have offered minimal inpatient coverage, while insurance benefits for outpatient care for workers were virtually nonexistent. This, despite the fact that over one-half the hospital beds in the United States are today occupied by the mentally ill, and that working class families lack the financial resources and the awareness to enable them to seek and receive early care and appropriate treatment.

Inpatient care.—In-hospital benefits for nervous or mental conditions will be extended from the present 30 days to 45 days of care for each continuous period of hospitalization. A new benefit period of 45 days will commence after 90 days elapse between the date of the last discharge from hospital and the date of new admission. Coverage will also be provided for drugs and electroshock therapy when given in the hospital or in the outpatient service of the hospital. Present contracts providing more than 45 days of in-hospital psychiatric benefits will, wherever they exist, be retained.

In-hospital medical benefits (i.e., the services of the physician) will also be extended to match the expansion of the hospital-days benefit. Night care center treatment, under which the patient spends his nights in a special hospital care program while continuing his normal daytime activities, is also included under the in-hospital psychiatric care benefit.

Outpatient care.—Whereas psychiatric patients were, in past years, often confined for lengthy periods of time in State mental hospitals, the trend in recent years has been for psychiatric discharges from such hospitals to exceed psychiatric admissions.

Development of tranquilizing drugs permits increased numbers of patients to be discharged from the largely publicly financed mental institutions, but these patients require continuing outpatient care for which public funds are not available.

In recognition of these new trends in treatment, the psychiatric benefit available to UAW members will be extended to cover a new program—outpatient mental health care. A maximum benefit of $400 per patient per calendar year will be paid for short-term psychotherapy which includes the following types of services:

1. Visits for therapeutic treatment in a doctor's office.
2. Therapeutic treatment for ambulatory patients in approved outpatient or day-care programs.
3. Visits by members of the patient's family for counseling service in the doctor's office or the outpatient clinic.
4. Group psychotherapy in the doctor's office or in a facility providing care to ambulatory patients.
5. Participation in therapy in a day-care center program.
6. Psychological testing by a psychologist when prescribed by a physician.

Charges.—The first five visits to a doctor's office will be available without charge to the patient; 15 percent of the cost of the next five visits will be paid by the patient; 30 percent of the cost of the next five visits after that will be paid by the patient. For all visits after the 15th, the patient pays 45 percent of the cost.

Hospital outpatient and day-care programs are offered without charge to the patient. When collateral visits are required by members of the patient's family a frequent occurrence with child patients), the first five collateral visits to the physician are also covered without charge. There is a patient charge of 15 percent of the cost of all services in group psychotherapy, as well as for one series of psychological tests.

The $400 maximum per patient per year applies only to the outpatient care portion of the program. Wherever possible the carriers, in conjunction with the UAW and the employers, will attempt to arrange programs which provide for reimbursement for service on a capitation or group fee basis.

Carriers.—The program will be underwritten in most areas of the country by Blue Cross-Blue Shield plans which have for some months cooperated with the UAW in developing the program planning. In those areas where service benefits are not available through the local "blues" plans, the UAW and the employers have agreed to develop alternate plans through which the benefits will be provided.

UAW members in Detroit will have the option of receiving the new mental health benefits through the Community Health Association group practice plan; similarly, workers in other areas may receive these benefits through participation in local prepayment group practice programs where they exist.

Professional participation.—Outpatient treatment services of psychiatric social workers and of psychologists, as well as physicians, will be paid for by the insurance carrier when these services are provided through a hospital, a clinic attached to a hospital, a Community Mental Health Center, or other group treatment facility.

Planning.—In addition to arranging for delivery of this service in existing hospitals and clinics, the carriers, the employers and the UAW will work in cooperation with the newly emerging Federal Community Mental Health Centers Act, which authorizes a total of $150 million through fiscal year 1967 for construction of community mental health centers.

Additionally, this cooperation will encompass other developing treatment centers geared to providing mental health benefits through the integration of the services of psychiatrists, psychologists, and psychiatric social workers.

Cooperation.—This new mental health care program is being developed by the International Union, UAW, in close cooperation with key officials of the American Psychiatric Association, the National Institute of Mental Health and the allied professions.

Daniel Blain, president of the American Psychiatric Association, recently hailed the UAW mental health program as establishing a "prototype which if emulated in future collective-bargaining contracts throughout American industry will, for the first time in history, make adequate psychiatric care available to scores of millions of Americans who have been deprived of it."

LONG-TERM CONVALESCENT AND NURSING HOME CARE PROGRAM

At the present time, because of the exclusions and limitations of most available prepaid hospital insurance, many patients are denied benefits in long-term convalescent or nursing home facilities. Only 7 million persons now have health insurance coverage for the costs of nursing home care.

In other cases, patients are maintained in expensive general hospital beds beyond thet period required by their medical conditions. This happens because insurance is not available for care in the more appropriate, long-stay facilities.

New long-term benefits.—This new benefit will cover convalescent and long-stay costs in an "approved facility" for a period of up to 730 days during any one benefit period.

The 730-day maximum benefit period is reduced by twice the number of days which the patient has already spent in a general hospital bed for the same disability. (For example, a patient confined in a general hospital for 60 days retains 610 days of his long-term benefit for that same disability: 60 times 2 subtracted from 730.)

"Approved facility" defined.—An "approved facility" is defined as a ward, wing, or other specially designated convalescent, chronic disease, or long-stay-care unit operated by, or under the supervision of, an accredited participating general hospital.

The definition also includes a participating hospital, nursing home, or convalescent facility which is affiliated with a participating general hospital (the detailed terms of approval are now being worked out).

Custodial care institutions or units are excluded, as are facilities offering primarily TB, mental illness, or mental retardation care.

Staffing services.—The staffing and services of an "approved facility" are also defined: They must provide 24-hour nursing care; this care must be given by a registered or under registered nurse supervision; and regular medical attention must be provided on a continuing basis.

Scope of benefits.—Nonpsychiatric patients must be referred by a physician for admission to an "approved facility." Such a patient must be admitted following hospitalization in a general hospital or directly from the patient's residence.

Patients must be convalescing from an acute illness requiring continuing nursing care and regular medical attention or from a long-term illness which cannot be treated at home, or be in a condition considered as terminal. Admission of psychiatric patients (including the mentally infirm or incompetent) to an "approved facility" must be on the order of a physician, following hospitalization in an acute-treatment, short-term general hospital.

Medical services included.—This benefit also provides for necessary medical services in the long-stay facility, for which the physician is compensated for each required visit with a maximum of 365 visits during any one period of disability.

Trends in medical care.—This benefit is designed to correspond with modern trends in medical care. Hospitalization for chronic illness is rapidly becoming a greater problem than that for acute illness.

This new benefit recognizes this change and extends coverage for chronic conditions as well as those currently being provided for acute illness.

In addition, the new benefit will encourage better and more economic use of general hospital facilities in that it will no longer be necessary to maintain patients in general hospital beds in order to continue the benefits. Since this benefit will only allow treatment in an approved facility, it is expected that the UAW long-term convalescent and nursing home care program will also encourage the upgrading of institutions providing this care, so as to meet the definitions of approved facility.

PRE- AND POST-NATAL CARE

Under the 1961 contract agreements, UAW female members and wives of male members received reimbursement only for delivery services when hospitalized for maternity care.

Too often, the lack of health insurance coverage for pre- and post-natal care has meant that the extra billings for these services prohibited or limited the care which the mother and newborn received.

Pre- and post-natal care.—This new UAW health care program assures a continuum of care from conception through delivery and until the mother and child leave the hospital. There is no charge to the patient for this care.

Maternity protection and quality care.—Pre- and post-natal care represents a substantial shield of protection against infant and maternal mortality, prematurity, mental retardation, childhood disease, childhood injury, and congenital defects.

Since infant and maternal mortality are considered indicators of the quality of medical care delivered in a nation, it is likely that the extension of health insurance coverage to pre- and post-natal care (plus the new Federal maternal and child health program) will allow the United States to improve its position relative to other nations which now surpass us by having lower infant mortality rates: In 1962 for instance, the United States ranked 11th among countries with the lowest infant mortality rates.

[illegible]

Supplemental Agreements

Covering

PENSION PLAN

and

INSURANCE PROGRAM

Exhibits A and B

to

AGREEMENT

between

GENERAL MOTORS CORPORATION

and

UAW-AFL-CIO

dated

October 5, 1964

EXHIBIT A

SUPPLEMENTAL AGREEMENT

(Pension Plan)

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On this 5th day of October, 1964, General Motors Corporation, hereinafter referred to as the Corporation, and the International Union, United Automobile, Aerospace and Agricultural Implement Workers of America, affiliated with the American Federation of Labor and Congress of Industrial Organizations, hereinafter referred to as the Union, on behalf of the employes covered by the collective bargaining agreement of which this Supplemental Agreement becomes a part, agree as follows:

Section 1. Establishment of Plan

Subject to the approval of its Board of Directors and Stockholders, the Corporation will establish an amended pension plan, hereinafter referred to as the "Plan", a copy of which is attached hereto as Exhibit A-1 and made a part of this agreement to the extent applicable to the employes represented by the Union and covered by this agreement as if fully set out herein, modified and supplemented, however, by the provisions hereinafter. In the event of any conflict between the provisions of the Plan and the provisions of this agreement, the provisions of this agreement will supersede the provisions of the Plan to the extent necessary to eliminate such conflict.

The Plan, as set forth in Exhibit A-1, and the Plan as it may be modified and supplemented by superseding provisions of this agreement, as above provided, are both contingent upon and subject to obtaining and retaining such approval of the Commissioner of Internal Revenue as the Corporation may find necessary to establish the deductibility for income tax purposes of any and all payments made by the Corporation under both plans as being tax exempt under Sections 401, 404 and 501(a) or other applicable provisions of the Internal Revenue Code. Any modification or amendment of either the Plan, or the Plan as modified and supplemented by this agreement, may be made retroactively by the Corporation with the consent of the Union, if necessary or appropriate, to qualify or maintain the Plan as a plan and trust meeting the requirements of Sections 401, 404 and 501(a) of the Internal Revenue Code, as now in effect or hereafter amended, or any other applicable provisions of the federal tax laws, as now in effect or hereafter amended or adopted, and the regulations issued thereunder, provided that pension benefits under the Plan are not diminished.

Until the Plan is approved by the Corporation's Board of Directors and Stockholders, and by the Commissioner of Internal Revenue, all as hereinbefore provided, the benefits payable shall be only those determined under the Plan as constituted prior to September 1, 1964; provided, however, that prior to the receipt of such stockholder approval but following approval by its Board of Directors and its receipt of the favorable ruling from the Commissioner of Internal Revenue as set forth above:

(i) the amounts of monthly pension benefits payable to retired employes who have made the election provided in Section 6 of Article II of the Plan, but who were not entitled to make such an election under the Pension Plan which was attached as Exhibit A-1 to the Supplemental Agreement (Pension Plan) between the parties dated September 20, 1961, shall be the reduced amounts otherwise payable in accordance with Section 6 of Article II except that no survivor benefit shall be paid to a surviving spouse of such retired employe. In the event such stockholder approval is not obtained, any such retired employe or beneficiary shall be paid an amount equal to the sum of the amounts by which the pension benefits have been reduced and the monthly pension benefit shall be restored to the amount which was otherwise payable.

(ii) the Corporation will pay to retired employes for the months commencing on or after January 1, 1965 and prior to June 1, 1965 any excess amounts equal to the difference between the monthly pension calculated in accordance with the terms of the Plan, attached hereto as Exhibit A-1, and the monthly pension paid or payable in accordance with the terms of the Pension Plan which was attached as Exhibit A-1 to the Supplemental Agreement (Pension Plan) between the Parties dated September 20, 1961. Any such excess amounts payable for months prior to the receipt of the aforementioned Board of Directors and the Commissioner of Internal Revenue approvals, shall be payable the first of the month following the date upon which the last of these two approvals is received by the Corporation, and any such amounts payable thereafter shall be paid on the first of the month at the same time as the related pension is paid. No survivor benefit shall be paid to a surviving spouse under Section 6(d) of Article II of the Plan prior to the receipt of the aforementioned Board of Directors, Commissioner of Internal Revenue and Stockholders approvals.

In the event that the Plan is disapproved by either the Board of Directors or the Stockholders of the Corporation, the Corporation within thirty days after any such disapproval will give written notice thereof to the Union and this agreement shall thereupon have no force or effect. In that event the matters covered by this agreement shall be the subject of further negotiation between the Corporation and the Union.

Section 2. Financing

(a) A trustee or an insurance company, or both, shall be designated by the Corporation, and a trust agreement or contract, or both, executed between the Corporation and such trustee or insurance company, or both, under the terms of which a pension fund or insured fund, shall be established to receive and hold contributions payable by the Corporation, interest, and other income, and to pay the pensions and supplemental allowances provided by the Plan.

(b) Subject to the provisions of Section 2(d) with respect to the funding of supplemental allowances, the Corporation agrees to pay over irrevocably to the trustee or insurance company as of each anniversary of the effective date of the Plan during the period of this agreement, contributions or payments for the Plan in the amount of the sum of (i) and (ii) below as determined and certified as of each such anniversary date by one or more actuaries chosen by, but independent of, the Corporation, and qualified through Fellowship in the Society of Actuaries (hereinafter referred to as the actuary):

(i) the annual "current service" or "normal cost" contribution attributable to a year's cost accruals in respect of assumed continuous service after each such anniversary date,

(ii) the "prior service contribution" computed as that part of the present value, at each such anniversary date, of the prospective pensions payable under the Plan for employes, pensioners and former employes who are entitled to a deferred pension then covered by the Plan which is in excess of:

(aa) the value of the trust fund, as then comprised of any contracts and total other assets, invested and uninvested, such total assets being valued on a basis at least equal to the total cost thereof, plus

(bb) the then present value of the prospective "current service" or "normal cost" determined by the actuary in accordance with (i) above, such excess part being amortized according to the following schedule:

(1) in respect of the portion of such excess part attributable to the level of benefits established by the Corporation's pension plan as constituted prior to June 1, 1953—the thirtieth anniversary of the Corporation's pension plan (October 1, 1980),

(2) in respect of the portion of such excess part attributable to the increase in the level of benefits established by amendments to the Corporation's pension plan effective as of June, 1953 —the thirty-third anniversary of the Corporation's pension plan (October 1, 1983),

(3) in respect of the portion of such excess part attributable to or arising from the further increase in the level of benefits and the granting of additional benefits by reason of amendments to the Corporation's pension plan effective as of June 1, 1955, the thirty-fifth anniversary of the Corporation's pension plan (October 1, 1985),

(4) in respect of the portion of such excess part attributable to or arising from the granting of additional benefits by reason of amendments to the Corpora-

tion's pension plan effective as of September 1, 1958 – the thirty-eighth anniversary of the Corporation's pension plan (October 1, 1988),

(5) in respect of the portion of such excess part attributable to or arising from the further increase in the level of benefits and the granting of additional benefits by reason of amendments to the Corporation's pension plan effective as of September 1, 1961–the forty-first anniversary of the Corporation's pension plan (October 1, 1991),

(6) in respect of the portion of such excess part attributable to or arising from the further increase in the level of benefits and the granting of additional benefits by reason of amendments to the Corporation's pension plan effective as of September 1, 1964–the forty-fourth anniversary of the Corporation's pension plan (October 1, 1994).

(c) The Corporation may contribute or pay additional amounts to the trustee or insurance company, or both, under (b) above in any year without such additional amounts being construed to reduce any thirty-year period for the completion of the "prior service contributions" of subsection (b)(ii) above. If the Corporation has contributed any such additional amounts prior to any anniversary date of the Corporation's pension plan or shall contribute any such additional amounts prior to any anniversary date of the Plan falling within the duration of this agreement, the Corporation may as of such anniversary, contribute a lesser amount than otherwise determined by (b) above for such anniversary, provided that the value of any contracts and total other assets as valued in accordance with (b)(ii)(aa) above at such anniversary, shall not be less than the amount estimated by the actuary to be the value as if contributions and payments up to and including, such anniversary date had been made as provided in (b) above and no additional amounts had been contributed or paid prior to such anniversary.

(d) Commencing September 1, 1965, the Corporation will pay to the trustee or insurance company as of each subsequent anniversary of the Plan during the period of this agreement, supplemental contributions or payments to fund the cost of the supplemental allowances of the Plan on a basis approved by the actuary, provided that as of each anniversary the balance in the fund attributable to the supplemental allowances shall not be less than zero. If the basis of funding the supplemental allowances is not the same as that provided for in Section 2(b), then Section 2(b) and the report and the statement covered by Section 3(a)(5)(iii) and (v) shall exclude any amounts attributable to supplemental allowances.

(e) The Corporation by payment of the contributions or amounts as hereinbefore provided in this section shall be relieved of any further liability, and pensions and supplemental allowances shall be payable only from the trust fund or the insured fund or both.

Section 3. Administration

(a) *Board of Administration*

(1) There shall be established a central Board of Administration hereinafter referred to as the Board, composed of six members, three appointed by the Corporation and three by the Union. Each member of the Board shall have an alternate. In the event a member is absent from a meeting of the Board, his alternate may attend and when in attendance shall exercise the duties of the member.

Either the Corporation or the Union at any time may remove a member or alternate appointed by it and may appoint a member or alternate to fill any vacancy among members or alternates appointed by it.

No person shall act as a member of the Board of Administration or as an alternate for such member unless notice of his appointment has been given in writing by the party making the appointment to the other party.

(2) The Board shall meet at such times and for such periods for the transaction of necessary business as may be mutually agreed upon by its members.

(3) To constitute a quorum for the transaction of business, the presence of four members of the Board shall be required. At all meetings of the Board the member or members present appointed by the Corporation shall have in the aggregate a total of one vote to be cast on behalf of the Corporation, and the member or members present appointed by the Union shall have in the aggregate a total of one vote to be cast on behalf of the Union.

(4) The compensation and expenses of the Corporation members will be paid by the Corporation and the compensation and expenses of the Union members will be paid by the Union and no part of such compensation or expenses will be paid from the trust fund.

(5) The Corporation shall cause to be furnished to the Board of Administration annually:

(i) A statement as of each anniversary date of the Plan showing in summary form the value of the assets which comprise such fund by general categories of investment, such value being determined on a basis at least equal to the total cost thereof for each such category.

(ii) Such information as to age, sex and service of hourly-rate employes of the Corporation as a whole in the United States and as to the number of pensioners and amount of pensions and supplemental allowances by age groups, as the Board may reasonably require, but in no event shall the Corporation be required to furnish the Board with any data not furnished by the Corporation to the actuary.

(iii) A report, prepared by the actuary, in respect of each year's actuarial valuation of the Plan, setting out the following:

(a) the amount of the normal cost contribution and the amount of the payment toward amortization of the actuarial deficiency required in accordance with Section 2(b) hereof.

(b) a statement of the method and the assumptions, such as the interest rate, mortality rates, withdrawal rates and retirement age assumptions adopted for the valuation for the purposes of Section 2(b) and 2(d) hereof.

(c) the amount, as of each anniversary date, of the gross actuarial deficiency, determined as the present value of the prospective pensions payable under the Plan less the then present value of the prospective normal cost contributions, if any, for (1) retired employes, (2) employes who have separated with retention of deferred pensions, (3) non-retired and non-separated employes, and (4) total.

(d) the amount of assets used in the actuarial valuation.

(e) the amount of the net (unfunded) actuarial deficiency.

(iv) A statement, certified by the actuary, that the amount of the trust fund is or is not less than the amount then required by Section 2(b) hereof to be in such fund; and, if the basis of funding supplemental allowances is not the same as that provided for in Section 2(b) then a statement that the amount in the trust fund attributable to supplemental allowances is not less than the amount required by the alternative method of funding.

(v) A statement setting forth:

(aa) The value of the trust fund computed in accordance with subsection (b) (ii) (aa) of Section 2 hereof as of the previous anniversary date of the Plan.

(bb) Additions during Plan year:

(i) payments by General Motors into the fund

(ii) interest and dividends received by the fund

(iii) net profits realized on sales of securities by the fund, and

(iv) total additions.

(cc) Pension payments to retired employes during Plan year.

(dd) The value of the trust fund computed in accordance with subsection (b) (ii) (aa) of Section 2 hereof as of the anniversary date of the Plan for the year for which the statement is being submitted.

(vi) A statement setting forth the contribution made during the Plan year toward the cost of supplemental allowances, the amount of the supplemental allowances paid during the Plan year, and the cumulative balance of such contributions less payments.

(6) The Board of Administration shall have no power to add to or subtract from or modify any of the terms of this agreement or the Plan, nor to change or add to any benefit provided by said agreement or Plan, nor to waive or fail to apply any requirement of eligibility for a benefit under said agreement or Plan.

(7) Any case referred to the Board of Administration on which it has no power to rule shall be referred back to the parties without ruling.

(8) No ruling or decision of the Board of Administration in one case shall create a basis for a retroactive adjustment in any other case prior to the date of written filing of each such specific claim.

(9) There shall be no appeal from any ruling by the Board which is within its authority. Each such ruling shall

be final and binding on the Union and its members, the employe or employes involved, and on the Corporation.

The Union will discourage any attempt of its members and will not encourage or cooperate with any of its members, in any appeal to any Court or Administrative Board or Agency from a ruling of the Board of Administration.

(b) ***Impartial Chairman***

(1) The Corporation and the Union shall mutually agree upon and select an Impartial Chairman, who shall serve until requested in writing to resign by three Board members.

(2) The Impartial Chairman will not be counted for the purpose of a quorum, and will vote only in case of a failure of the Corporation and Union by vote through their representatives on the Board to agree upon a matter which is properly before the Board and within the Board's authority to determine; provided that the Impartial Chairman may vote only on matters involving the processing of individual cases, not on the development of procedures.

(3) The fees and expenses of the Impartial Chairman will be paid one-half by the Corporation and one-half by the Union.

(c) As soon as possible after the effective date of this agreement, the Union and Corporation members of the Board of Administration shall work out matters such as but not limited to: (1) procedures for establishing Local Pension Committees at the Divisions or plants involved; (2) the authority and duties of such Local Pension Committees; (3) the procedures for reviewing applications for pensions; (4) the handling of complaints regarding the determination of age, service credits, and computation of benefits; (5) procedures for making appeals to the Board; (6) means of verifying service credits to which employes are entitled under the Plan; (7) methods of furnishing information to employes regarding past and future service credits; (8) the amount of time the Union members of the local committees may be permitted to leave their work to attend meetings of the Local Pension Committees; (9) how disputes over total and permanent disability claims will be handled, including disputes, if any, with respect to whether a disabled pensioner engages in gainful employment; (10) the review of pertinent information about the Plan for dissemination to employes; (11) how pension payments will be authorized by the Board. All such matters shall be consistent with all other provisions of the Plan and this agreement. The working out of the procedures outlined in this section shall be the responsibility of the Corporation and Union members of the Board, and the Impartial Chairman shall have no power to decide any question with respect thereto.

The provisions of Agreement Implementing Section 3(c) of the Supplemental Agreement, Pension Plan, dated September 20, 1961 which were established by the Board pursuant to the foregoing are incorporated herein by reference and are a part hereof and effective with respect to the administration of the Plan as fully as if set out herein at length.

(d) Except as provided otherwise in this agreement, the general administration of the provisions of the Plan shall be the responsibility of the Corporation.

(e) The Board and any member of the Board, or the Local Pension Committees or any member of the Local Pension Committees, shall be entitled to rely upon the correctness of any information furnished by the Union or the Corporation. Neither the Board nor any of its members, nor the Local Pension Committees nor any of its members, nor the Union nor any officer or other representative of the Union, nor the Corporation nor any officer or other representative of the Corporation shall be liable because of any act, or failure to act, on the part of the Board or any of its members, or the Local Pension Committees or any of its members or any person, except that nothing herein shall be deemed to relieve any such individual from any liability for his own fraud or bad faith.

(f) No matter respecting the Plan as modified and supplemented by this agreement or any difference arising thereunder shall be subject to the grievance procedure established in the collective bargaining agreement between the Corporation and the Union, except as expressly provided in Paragraph (46) of such collective bargaining agreement.

(g) Credited service shall be granted an employe who is absent from his work pursuant to Paragraph 24 of the National Agreement, or on a leave of absence under Paragraph 109 of the National Agreement if the leave was granted for the purpose of permitting the employe to engage in the business of or to work for the Local Union, or if the leave was granted under Paragraph 109(a) of the National Agreement for the purpose of permitting the employe to engage in the business of or to work for the International Union while on such leave.

An employe eligible for credited service under this section shall be credited with 40 hours for each complete calendar week since October 1, 1950 while he is on such leave, provided he meets the requirements of the leave; but in no event shall the employe be credited with more than 1700 hours, including compensated hours, in any calendar year.

(h) Notwithstanding the provisions of Article II, Section 5 of the Plan, the absence of an employe from active work at the time the employe would be eligible to retire under the Plan shall not preclude the employe's retirement without return to active work; provided that the employe, at the time, is on a leave of absence granted under Paragraphs 109 or 109(a) of the National Agreement and such leave has been continuous since prior to October 1, 1950.

Section 4. Automatic Retirement

There shall be automatic retirement at the ages and on the basis specified in the Plan but such automatic retirement dates shall not affect the Corporation's right to discharge or otherwise discipline employes, subject to any pension rights under the Plan, prior to the automatic retirement date, provided, however, that any employe so discharged or disciplined shall have the right to file a grievance in accordance with the grievance procedure established in the collective bargaining agreement.

Section 5. Effect of Retirement on Employment Status and Seniority

(a) An employe who retires or is retired under the terms of the Plan shall cease to be an employe and shall have his seniority canceled.

(b) An employe who has been retired on a total and permanent disability pension and who thereby has broken his seniority in accordance with subsection (a) above, but, who recovers and has his pension discontinued, shall have his seniority reinstated as though he had been on a sick leave of absence during the period of his disability retirement, provided however, if the period of his disability retirement was for a period longer than the seniority he had at the date of retirement, he shall, upon the discontinuance of his disability pension, be given seniority equal to the amount of seniority he had at the date of such retirement.

(c) If an employe retired for reasons other than total and permanent disability, who has lost seniority in accordance with subsection (a) above, is rehired, such employe will have the status of a new employe and without seniority, and he shall not acquire or accumulate any seniority thereafter, for any purpose under this agreement.

Section 6. Suspension of Benefits at Option of Employe

Notwithstanding any other provisions of this Plan, an employe entitled to receive a pension or supplemental allowance may, for personal reasons and without disclosure thereof, request the Local Pension Committee in writing to suspend for any period payment of all or any part of such pension or supplemental allowance otherwise payable to him hereunder. The Local Pension Committee, on receipt of such request, shall authorize such suspension, in which event the employe shall be deemed to have forfeited all rights to the amount of pension or supplemental allowance so suspended, but shall retain the right to have the full pension or supplemental allowance otherwise payable to him hereunder reinstated as to future monthly payments upon written notice to the Local Pension Committee of his desire to revoke his prior request for a suspension under this section.

Section 7. Duration of Agreement

This agreement and Plan shall continue in effect until the termination of the collective bargaining agreement of which this is a part.

In witness hereof, the parties hereto have caused this agreement to be executed the day and year first above written.

**International Union,
United Automobile, Aerospace
and Agricultural Implement
Workers of America,
AFL-CIO**

Walter P. Reuther
Leonard Woodcock
E. J. Moran
Frank James
Hubert Gillespie
Clarence Lyons
Joseph Malotke
John E. Turner
Darwin Wagie
William E. Tennant
John DeVito
Ross E. Drennon
Maurice Treadwell
James Patterson
Francis Lang
Howard Smith

**General Motors
Corporation**

Louis G. Seaton
Earl R. Bramblett
G. B. Morris, Jr.
F. H. Schwarze
G. L. Wright
H. D. Garrett
W. S. Byrne
K. H. Middleton
R. W. Clark
B. P. Crane, Jr.
W. A. Brunstad
J. F. Quinn
F. W. Angle
J. C. Edwards
E. A. Hodge
D. H. Pfeifer
R. E. Deeds, Jr.
J. M. Gillen
V. M. Zink
S. L. Cole, Jr.
R. A. Lennox
C. D. Eavenson

EXHIBIT A-1

THE GENERAL MOTORS HOURLY-RATE EMPLOYES

Pension Plan

ARTICLE I

ESTABLISHMENT OF THE PLAN

General Motors Corporation on behalf of itself and its Divisions and as agent for its directly or indirectly wholly-owned and substantially wholly-owned domestic subsidiaries will establish, subject to the approval of its Board of Directors and its Stockholders, a pension fund either by a trust agreement with a trustee or trustees or by contract with an insurance company or insurance companies, or both, and with respect thereto shall make such payments or contributions as will be sufficient to maintain the fund on a sound actuarial basis as well as to pay expenses incident to the operation and management of the Plan.

ARTICLE II

ELIGIBILITY FOR RETIREMENT AND AMOUNT OF PENSIONS

Section 1. Normal Retirement

(a) (1) Any employe who on or after October 1, 1950 shall have attained the age of 65, shall have completed 10 or more years of credited service as provided in Article III and shall cease active service, shall be entitled to receive a pension.

(2) An employe separated from the Corporation's active employment be-

cause of quit, discharge or release on or after January 1, 1950 and prior to October 1, 1950, and who at the time of such separation had attained age 65 and had completed 10 or more years' credited service, shall be eligible on October 1, 1950 for a pension commencing October 1, 1950, in accordance with the provisions of this section.

(3) An employe on lay-off or approved Corporation leave of absence on October 1, 1950 and who on that date has 10 or more years of credited service and who has neither broken seniority nor returned to work at the date the employe reaches age 60, or October 1, 1950, whichever is later, shall be entitled to receive a pension as hereinafter provided in this section; except that if such pension commences prior to age 65 it shall be determined in accordance with the provisions of Section 2(c)(1) or 2(c)(2) of this Article II.

(b) (1) The monthly pension payable to a pensioner who was retired pursuant to the provisions of Section 1(a) of this Article II with benefits payable commencing prior to September 1, 1958 shall be:

(i) $2.35 for each year of credited service for any pension falling due for months commencing on or after September 1, 1958 and prior to January 1, 1965; and

(ii) $3.80 for each year of credited service for any pension falling due for months commencing on or after January 1, 1965.

(2) The monthly pension payable to an employe retired pursuant to the provisions of Section 1(a) of this Article II with benefits payable commencing on or after September 1, 1958 and prior to September 1, 1961 shall be:

(i) for any pension falling due for months commencing prior to January 1, 1965

(aa) $2.40 for each year of credited service accrued prior to January 1, 1958,

(bb) $2.43 multiplied by credited service accrued in the year 1958, and

(cc) $2.50 for each year of credited service accrued subsequent to December 31, 1958; and

(ii) for any pension falling due for months commencing on or after January 1, 1965

(aa) $3.85 for each year of credited service accrued prior to January 1, 1958, (bb) $3.88 multiplied by credited service accrued in the year 1958, and

(cc) $3.95 for each year of credited service accrued subsequent to December 31, 1958.

(3) The monthly pension payable to an employe retired pursuant to the provisions of Section 1(a) of this Article II with benefits payable commencing on or after September 1, 1961 and prior to September 1, 1964 shall be:

(i) for any pension falling due for months commencing prior to January 1, 1962, an amount determined in accordance with Section 1(b)(2) of this Article II;

(ii) for any pension falling due for months commencing on or after January 1, 1962 and prior to January 1, 1965, $2.80 for each year of credited service; and

(iii) for any pension falling due for months commencing on or after January 1, 1965, $4.25 for each year of credited service.

(4) The monthly pension payable to an employe retired pursuant to the provisions of Section 1(a) of this Article

II with benefits payable commencing on or after September 1, 1964 shall be:

(i) for any pension falling due for months commencing prior to January 1, 1965, an amount determined in accordance with Section 1(b)(3)(ii) of this Article II; and

(ii) for any pension falling due for months commencing on or after January 1, 1965, $4.25 for each year of credited service.

Section 2. Early Retirement

(a) On or after October 1, 1950, any employe who has attained age 60 but not age 65 and who has 10 or more years of credited service may retire at the option of the employe, or may be retired at the option of the Corporation or under mutually satisfactory conditions.

(b) (1) On or after September 1, 1964, an employe who has attained age 55 but not age 60 and whose combined years of age and years of credited service (to the nearest 1/12 in each case) shall total 85 or more may retire at the option of the employe.

(2) On or after September 1, 1964, an employe who has attained age 55 but not age 60 and who has 10 or more years of credited service may be re-

tired at the option of the Corporation or under mutually satisfactory conditions.

(c) (1) An employe retired at the option of the employe with benefits payable commencing prior to September 1, 1964 may at the election of such employe receive either

(i) a monthly pension commencing at age 65 determined in accordance with Section 1(b) of this Article II and based upon the credited service of the employe at the time of early retirement for any pension falling due for months commencing on or after June 1, 1955 or

(ii) a monthly pension commencing at time of early retirement in accordance with Section 1(b) of this Article II and based upon the credited service of the employe at the time of early retirement for any pension falling due for months commencing on or after June 1, 1955, such pension being reduced by 6/10 of 1 per cent for each complete calendar month by which such employe is under the age of 65 at the time of early retirement.

(iii) In lieu of the pension otherwise payable under (ii) above or the reduced amount of such pension if he has made a survivor benefit election in accordance with Section 6 of this Article II, an employe who retired with benefits payable commencing on or after January 1, 1962 and prior to September 1, 1964 might have elected to receive the following pension benefits:

(aa) With respect to months for which a benefit is payable to him up to and including the month the employe attains age 62, an amount equal to the sum of his benefit determined under (ii) above or the reduced amount of such pension if he has made a survivor benefit election in accordance with Section 6 of this Article II, plus $96.00 reduced by 6/10 of 1% for each complete calendar month by which he was under age 62 at the date such early retirement benefits commenced.

(bb) With respect to months for which a benefit is payable to him following his attainment of age 62, an amount equal to the amount specified in (aa) hereof less $96.00.

(cc) The option set forth in this Section 2(c)(1)(iii) was not available to an employe if the amount of his benefit as determined in (bb) hereof would have been less than $15.00 a month.

For any pension falling due for months commencing on or after January 1, 1965 under this Section 2(c)(1), such pension shall be increased to the monthly pension that would be payable if the amounts payable commencing on or after January 1, 1965 as provided in Section 1(b) of this Article II had been used in determining the amount of such pension at the time of early retirement.

(2) The monthly pension benefit payable to an employe who retires at his option with benefits payable commencing, at a date selected by the employe, on or after September 1, 1964 shall be an amount equal to:

(i) for any pension falling due for months commencing on or after January 1, 1965, $4.25 for each year of credited service that he had at the date of his early retirement, multiplied by a percentage as set forth in the following table:

Age When Pension Commences	%*
55	57.9%
56	63.5
57	69.4
58	75.2
59	80.8
60	86.7
61	93.3
62 or over	100.0

**Prorated for intermediate ages computed on the basis of the number of complete calendar months by which the employe is under the age he will attain at his next birthday.*

(ii) for any pension falling due for months commencing prior to January 1, 1965, $2.80 for each year of credited service, reduced by 6/10 of 1 per cent for each complete calender month by which such employe is under the age of 65 at the time his pension commences.

(3) An employe retired at the option of the Corporation or under mutually satisfactory conditions pursuant to Section 2(a) above with benefits payable commencing prior to September 1, 1958 shall receive a monthly pension commencing at early retirement of:

(i) $4.70 for each year of credited service for any pension falling due for months commencing on or after September 1, 1958 and prior to January 1, 1965; and

(ii) $7.60 for each year of credited service for any pension falling due for months commencing on or after January 1, 1965.

(4) The monthly pension payable to an employe retired at the option of the Corporation or under mutually satisfactory conditions pursuant to Section 2(a) above with benefits payable commencing on or after September 1, 1958 and prior to September 1, 1961 shall be:

(i) for any pension falling due for months commencing prior to January 1, 1965

(aa) $4.80 for each year of credited service accrued prior to January 1, 1958,

(bb) $4.86 multiplied by credited service accrued in the year 1958, and

(cc) $5.00 for each year of credited service accrued subsequent to December 31, 1958; and

(ii) for any pension falling due for months commencing on or after January 1, 1965

(aa) $7.70 for each year of credited service accrued prior to January 1, 1958,

(bb) $7.76 multiplied by credited service accrued in the year 1958, and

(cc) $7.90 for each year of credited service accrued subsequent to December 31, 1958.

(5) The monthly pension payable to an employe retired at the option of the Corporation or under mutually satisfactory conditions pursuant to Section 2(a) above with benefits payable commencing on or after September 1, 1961 and prior to September 1, 1964 shall be:

(i) for any pension falling due for months commencing prior to January 1, 1962, an amount determined in accordance with Section 2(c)(4) of this Article II;

(ii) for any pension falling due for months commencing on or after January 1, 1962 and prior to January 1, 1965, $5.60 for each year of credited service; and

(iii) for any pension falling due for months commencing on or after January 1, 1965, $8.50 for each year of credited service.

(6) The monthly pension payable to an employe retired at the option of the Corporation or under mutually satisfactory conditions between ages 55 and 65 pursuant to Section 2(a) or 2(b) above with benefits payable commencing on or after September 1, 1964 shall be:

(i) for any pension falling due for months commencing prior to January 1, 1965, $5.60 for each year of credited service; and

(ii) for any pension falling due for months commencing on or after January 1, 1965, the sum of:

(aa) $4.25 for each year of credited service, and

(bb) $5.20 for each year of credited service up to a maximum of $130.00.

(7) The monthly pension determined in (c)(1) or (c)(2) above shall not be redetermined thereafter. The monthly pension determined in (c)(3), (c)(4), (c)(5) or (c)(6) above shall be payable until age 65, or, if earlier, until the age at which the employe becomes or could have become eligible for an unreduced Federal Social

Security benefit for age or disability. At such age a redetermination shall be made and the monthly pension thereafter paid shall be in accordance with Section 1(b) of this Article II. Such redetermined monthly pension shall not be reduced by the amount of the applicable Federal Social Security benefit.

(d) (1) An employe discharged for cause on or after October 1, 1950, after such employe has attained age 60 but before age 65 and has at least 10 years of credited service, shall be entitled to the benefits provided under Section 2(c)(1) or 2(c)(2), whichever is applicable, of this Article II.

(2) An employe discharged for cause on or after September 1, 1964, after such employe has attained age 55 but before age 60 and whose combined years of age and years of credited service (to the nearest 1/12 in each case) shall total 85 or more at the date he loses seniority shall be entitled to the benefits provided under Section 2(c)(2) of this Article II.

Section 3. Automatic Retirement

(a) An employe age 68 or older shall be automatically retired as of the last day of the month which includes the date the employe attains the age of 68.

(b) An employe who has not broken seniority on May 31, 1950 and who after October

1, 1950 reaches the automatic retirement date of subsection (a) above prior to September 1, 1958 with more than 5 but less than 10 years of credited service and retires, shall, notwithstanding the provisions of Article II, Section 1(a)(1), receive a monthly pension of $23.50 for any pension falling due for months commencing on or after September 1, 1958 and prior to January 1, 1965, and $38.00 for any pension falling due for months commencing on or after January 1, 1965. If such employe reaches the automatic retirement date of subsection (a) above on or after:

(1) September 1, 1958 and prior to August 1, 1961, he shall receive a monthly pension of $24.00 for any pension falling due for months commencing on or after September 1, 1958 and prior to January 1, 1965, and $38.50 for any pension falling due for months commencing on or after January 1, 1965.

(2) August 1, 1961 and prior to August 1, 1964, he shall receive a monthly pension of $24.00 for any pension falling due for months commencing prior to January 1, 1962, $28.00 for any pension falling due for months commencing on or after January 1, 1962 and prior to January 1, 1965, and $42.50 for any pension falling due for months commencing on or after January 1, 1965.

(3) August 1, 1964, he shall receive a monthly pension of $28.00 for any pension falling due for months commencing prior to January 1, 1965 and $42.50 for any pension falling due for months commencing on or after January 1, 1965.

(c) An employe may remain actively employed after the automatic retirement age or date of subsection (a) above only with the approval and at the option of the Corporation.

Section 4. Total and Permanent Disability Retirement

(a) An employe who subsequent to October 1, 1950 becomes totally and permanently disabled after the 50th birthday of the employe and prior to attaining age 65, and has at least 15 years of credited service, shall be eligible for a disability pension as hereinafter provided; except that (i) the 50th birthday limitation shall not apply to any employe who is actively at work for the Corporation on or after June 1, 1955 or who has unbroken seniority on September 1, 1964, and (ii) the "15 years of credited service" requirement herein shall become "10 years of credited service" for an employe who is totally and permanently disabled on or after September 1, 1961.

(b) An employe shall be deemed to be totally and permanently disabled only if he is not engaged in regular employment or occupation for remuneration or profit and on the basis of medical evidence satisfactory to the Corporation the employe is found to be wholly and permanently prevented from engaging in regular employment or occupation with the Corporation at the plant or plants where he has seniority for remuneration or profit as a result of bodily injury or disease, either occupational or non-occupational in cause, but excluding disabilities resulting from service in the armed forces of any country.

(c) (1) The monthly pension payable to such a disabled employe retired pursuant to the provisions of Section 4(a) of this Article II with benefits payable commencing prior to September 1, 1958 shall be:

(i) $4.70 per month for each year of credited service to the date such disability commenced for any pension falling due for months commencing on or after September 1, 1958 and prior to January 1, 1965.

(ii) $7.60 per month for each year of credited service to the date such disability commenced for any pension falling due for months commencing on or after January 1, 1965.

(2) The monthly pension payable to such a disabled employe retired pursuant to the provisions of Section 4(a) of

this Article II with benefits payable commencing on or after September 1, 1958 and prior to September 1, 1961 shall be:

(i) for any pension falling due for months commencing prior to January 1, 1965

(aa) $4.80 for each year of credited service accrued prior to January 1, 1958,

(bb) $4.86 multiplied by credited service accrued in the year 1958, and

(cc) $5.00 for each year of credited service accrued subsequent to December 31, 1958; and

(ii) for any pension falling due for months commencing on or after January 1, 1965

(aa) $7.70 for each year of credited service accrued prior to January 1, 1958,

(bb) $7.76 multiplied by credited service accrued in the year 1958, and

(cc) $7.90 for each year of credited service accrued subsequent to December 31, 1958.

(3) The monthly pension payable to such a disabled employe retired pursuant to the provisions of Section 4(a) of this Article II with benefits payable commencing on or after September 1, 1961 and prior to September 1, 1964 shall be:

(i) for any pension falling due for months commencing prior to January 1, 1962, an amount determined in accordance with Section 4(c)(2) of this Article II;

(ii) for any pension falling due for months commencing on or after January 1, 1962 and prior to January 1, 1965, $5.60 for each year of credited service; and

(iii) for any pension falling due for months commencing on or after January 1, 1965, $8.50 for each year of credited service.

(4) The monthly pension payable to such a disabled employe retired pursuant to the provisions of Section 4(a) of this Article II with benefits payable commencing on or after September 1, 1964 shall be:

(i) for any pension falling due for months commencing prior to January 1, 1965, $5.60 for each year of credited service; and

(ii) for any pension falling due for months commencing on or after January 1, 1965, the sum of:

(aa) $4.25 for each year of credited service, and

(bb) $5.20 for each year of credited service up to a maximum of $130.00.

(5) Such pension shall be payable in accordance with Article VII, Section 1 to the disability pensioner during the continuance of total and permanent disability until the disability pensioner attains age 65, or, if earlier, until the age at which the disability pensioner becomes or could have become eligible for an unreduced Federal Social Security benefit for age or disability. At such age a redetermination shall be made and the monthly pension thereafter paid shall be in accordance with Section 1(b) of this Article II. Such redetermined monthly pension shall not be reduced by the amount of the applicable Federal Social Security benefit.

(d) Any disability pensioner may be required to submit to medical examination at any time during retirement prior to age 65, but not more often than semi-annually, to determine whether the pensioner is eligible for continuance of the disability pension. If on the basis of such examination it is found that the pensioner is no longer disabled or if the pensioner engages in gainful employment, except for purposes of rehabilitation as determined by the Corporation, the pensioner will be deemed recovered and his disability pension will cease. In the event the disability pensioner refuses to submit to medical examination the pension will be discontinued until the pensioner is examined.

Section 5. Employes Not Actively at Work

The absence of an employe from active work at the time such employe would be eligible to retire under the Plan shall not preclude the employe's retirement without return to active work, provided that such absence is due to lay-off, sick leave or other Corporation approved leave of absence commencing subsequent to October 1, 1950 and provided that there has been no loss of credited service.

Section 6. Pension Benefits to Employe's Surviving Spouse

(a) In lieu of the monthly pension benefit otherwise payable or, if less, the benefit which would be payable if he were eligible for an unreduced Federal Social Security benefit for age or disability, an employe who retires or is retired with benefits commencing on or after January 1, 1962 pursuant to the normal, early, automatic or total and permanent disability retirement provisions of this Article II, or who breaks seniority on or after January 1, 1962 and is eligible for a deferred pension pursuant to the provisions of Section 2 of Article VII hereof, may elect to receive a reduced amount of monthly pension benefit to provide that, if his designated spouse shall be living at his death after such election shall have become effective, a survivor benefit shall be payable to such spouse during her further lifetime; provided that:

(1) The employe completes the election on a form approved by the Corporation and files it with the Corporation:

(i) at the time he makes application for an early pension benefit to commence after age 55, or for a normal, disability, automatic or deferred pension benefit to commence after age 60; in which case the election shall become effective on the commencement date of the employe's monthly pension benefit; or

(ii) during the month prior to that in which the employe attains age 60 if he attains age 60 while eligible for and receiving a disability pension; in which case the election shall become effective on the first day of the month following the month in which he attains age 60; except that in the case of a disability pensioner who has attained age 60 but not age 65 at September 1, 1964 the election shall become effective on the first day of the month following which the Corporation receives the completed election form, provided that if such form is not received on or before January 1, 1965 or on or before the end of the month in which the employe attains age 65, if earlier than January 1, 1965, the option shall not be effective at any time.

(2) The employe may designate as the beneficiary of a survivor benefit election only the person who is his spouse at such time and who has been his spouse for at least one year immediately prior to the date the employe makes such election, provided, however, that such spouse shall be limited to

(i) the wife of a male employe, or

(ii) the husband of a female employe, provided the total income of such employe during the last taxable year prior to the date of such survivor benefit election was more than one-half the combined income of the employe and her husband for such taxable year.

(3) A survivor benefit election shall be revoked automatically upon the death of the employe or his designated spouse, or both, prior to the effective date of the election.

(4) A survivor benefit election shall be irrevocable at and after its effective date if the employe and his designated spouse shall be living at such date.

(b) For an employe who makes a survivor benefit election pursuant to this Section 6, the reduced amount of his monthly pension benefit referred to in (a) above shall be equal to an amount determined by multiplying the monthly pension benefit otherwise payable to the employe excluding any supplemental allowance payable under Section 7 of this Article II (or, if less, the benefit which would be payable if he were eligible for an unreduced Federal Social Security benefit for age or disability) by 90% if the employe's age and his designated spouse's age are the same. Such percentage shall be increased by one-half of one per cent (½%) (up to a maximum of 100%) for each 12 months that the designated spouse's age exceeds the employe's age and shall be decreased by one-half of one per cent (½%) for each 12 months that the designated spouse's age is less than the employe's age.

(c) The survivor benefit payable to the surviving spouse of a retired employe who has completed an election pursuant to this Section 6, and who dies after such election becomes effective, shall be a monthly benefit for the further lifetime of such surviving spouse equal to 50%, or in the case of any election which became effective on or after September 1, 1964, for any survivor benefit falling due for months commencing on or after January 1, 1965, 55%, of the reduced amount of such employe's monthly pension benefit as determined in (b) above. For any survivor benefit falling due for months commencing on or after January 1, 1965, the monthly benefit payable to a surviving spouse of an employe who retired and died before January 1, 1965, and who made a survivor benefit election which became effective prior to September 1, 1964 pursuant to this Section 6, shall be increased to 50% of the reduced pension that would have been payable to such employe if the increased monthly pension rate applicable to such employe for monthly pension payments on and after January 1, 1965, had been used at the date of such employe's retirement in calculating his reduced pension.

(d) The surviving spouse of an employe

(i) who dies on or after September 1, 1964, and

(ii) on or after attaining age 60, or on or after attaining age 55 if his combined years of age and credited service (to the nearest 1/12 in each case) total 85 or more, but before the first day of the month following the date on which he retires or before the commencement date of his monthly pension in the case of an employe who defers the receipt of his monthly pension under Section 2(c)(2) of this Article II, and

(iii) who, if he had retired at the date of his death, would have been eligible to make the election under subsection (a) of this Section 6,

shall be entitled to a monthly benefit during her lifetime, terminating with the last monthly payment before her death. The monthly benefit payable to the surviving spouse shall be the amount she would have been entitled to receive under subsection (c) of this Section 6, if the employe had retired on the date of his death under Sections 1(a), 2(a) or 2(b)(1), whichever is applicable, of this Article II with benefits commencing the first of the following month and had effectively made the election under subsection (a) of this Section 6; provided, however, that no benefit shall be payable under this subsection (d) for any month for which benefits are payable under Article II, Section 1(b) of the General Motors Insurance Program for Hourly-Rate Employes, nor in any case before January 1, 1965.

Section 7. Supplemental Allowance

(a) An employe who retires under Section 2 (other than an employe referred to in Section 2(d) of this Article II, unless the Corporation or an Impartial Umpire under an applicable collective bargaining agreement determines his discharge should not result in his being ineligible for benefits under this Section 7) or retires under Section 4 of this Article II on or after September 1, 1965, and who files his application for a pension within two years of the last day he worked for the Corporation and who agrees to restrict his participation in the work force as provided in (d) below will receive, on the following terms and conditions, a monthly supplemental allowance in addition to his pension.

(b) Subject to the provisions of (e) of this Section 7, the monthly supplemental allowance shall be:

(1) if the employe has attained age 60 at the date of his retirement, an amount which when added to his monthly pension under this Plan will equal: (i) $400, reduced by (ii) $1.33⅓ for each 1/10 of a year that his credited service at the date of his retirement is less than 30 years; or

(2) if he has not attained age 60 at the date of his retirement, an amount which when added to his monthly pension under this Plan will equal: (i) $400, reduced by (ii) $1.33⅓ for each 1/10 of a year that his credited service at the date of his retirement is less than 30 years, and multiplied by (iii) a fraction the numerator of which is 60 and the denominator of which is the number of full months by which he is less than age 65 at the date of his retirement; provided, however, that

(3) in the case of an employe retiring with benefits payable under Section 2(c)(2) of this Article II, his sup-

plemental allowance shall be calculated assuming that his pension commences immediately after retirement, and for any month prior to age 65 for which he becomes or could have become eligible for an unreduced Federal Social Security benefit for age or disability, his monthly supplemental allowance shall be reduced by $5.20 for each year of credited service that he had at the date of his retirement, up to a maximum reduction of $130.00; and

(4) in the case of an employe retiring with benefits payable under Section 2(c)(6) or Section 4(c)(4) of this Article II, in computing his supplemental allowance, the employe's monthly pension under Section 2(c)(6) or Section 4(c)(4) shall include the amount provided in Section 2(c)(6)(ii)(bb) or Section 4(c)(4)(ii)(bb), whether or not the employe's monthly pension under Section 2(c)(6) or Section 4(c)(4) actually includes such amount.

(c) If an employe entitled to a supplemental allowance makes the election provided in Section 6(a) of this Article II, his supplemental allowance shall be computed on the basis of the monthly pension he would have received under Section 2 or Section 4, whichever is applicable, of this Article II as if he had not made the election under Section 6(a).

(d) No supplemental allowance shall be payable for any month prior to September 1, 1965. Subject thereto, the supplemental allowance of an employe entitled to such allowance shall commence on the first day of the month following the date on which the employe retires and shall be payable monthly thereafter until and including the first day of the month in which he attains age 65, or he dies, or his pension ceases for any other reason, or if he is reemployed by the Corporation, whichever occurs first; provided, however, that if an employe entitled to receive a supplemental allowance has earnings after retirement in excess of $1200 in any calendar year, which is the amount permitted without reduction of benefits under the Federal Social Security Act, or the corresponding amount in any future Federal legislation amending, superseding, supplementing or incorporating the Federal Social Security Act, his supplemental allowance shall cease as of the month in which that amount is exceeded and he shall forfeit all right to supplemental allowance payments thereafter; and provided further, that if he had been receiving a pension under Section 4 of this Article II and had been receiving supplemental allowance payments and on the basis of medical evidence satisfactory to the Corporation it is found that he is no longer totally and permanently disabled and his seniority is restored, or if he is reemployed by the Corporation, he shall not thereby forfeit any right he may thereafter have to receive supplemental allowance payments if he thereafter retires under this Pension Plan. An employe receiving a supplemental allowance may be required to certify that his earnings have not been in excess of the permitted amount and to furnish verification of the amount of his earnings. Any overpayments of a supplemental allowance made after an employe ceased to be entitled to receive such allowance because of excess earnings may be deducted from future monthly pension payments payable to him under the Pension Plan.

(e) If the total of the employe's monthly pension under this Pension Plan and his monthly supplemental allowance as computed above would exceed 70% of his final base pay, his monthly supplemental allowance (but not his monthly pension) shall be reduced to the extent required so that such monthly pension plus his supplemental allowance will equal 70% of his final base pay. For this purpose, an employe's final base pay shall mean 173⅓ times his Base Hourly Rate as defined in Article X.

(f) Notwithstanding anything in this Pension Plan, however, an employe who retires while on an approved leave of absence requested by the International Union to permit him to engage in the business of or to work for the International Union shall not be entitled to a supplemental allowance under this Section 7.

ARTICLE III

CREDITED SERVICE

Section 1. Credited Service Prior to October 1, 1950

Credited service prior to October 1, 1950 shall be computed to the nearest 1/10 year and shall be the sum of:

(a) the number of years following the employe's plant seniority date on October 1, 1950 but preceding October 1, 1950 (except that an employe with seniority on or after September 1, 1964 who did not have a plant seniority date on October 1, 1950, but who (i) was in active service with the Corporation prior to October 1, 1950 and (ii) was reemployed by the Corporation and acquired, and has credited service for active service immediately following, a seniority date after October 1, 1950 which is within 24 consecutive months following the last day the employe worked for the Corporation prior to October 1, 1950 shall, upon making proper application, be given credited service under this Section 1 as though he had a plant seniority date of October 1, 1950, subject to the provisions of Sections 3 and 4 of this Article III), plus

(b) (1) any period or periods of active service as an hourly or salaried employe to any plant or Division of the Corporation preceding the employe's seniority date on October 1, 1950, provided that if there was an absence interval equal to two years or more between periods of active service with the Corporation beginning with the last day of active service in the period immediately preceding such interval, no service prior to such interval shall be counted, except this proviso shall not apply (i) to any such interval commencing on or after January 1, 1930 and ending on or before June 1, 1934, nor (ii) for an employe who has seniority on or after September 1, 1964 and who makes proper application, to any such interval under an approved military or war service leave of absence, nor (iii) for an employe who has seniority on or after September 1, 1964 and who makes proper application, with respect to any period or periods of active service with the Corporation totaling five years or more provided no part of such active service is prior to any absence interval of more than five years, plus

(2) any period of absence prior to October 1, 1950 under a lay-off or approved leave of absence immediately following any period of active service credited under Section 1(b)(1) (except (iii)) of this Article provided

(i) the absence to be credited was less than one year, and

(ii) employe was on the roll in the plant for a period of at least six months prior to the first day of absence to be credited, and

(iii) employe returned to active service in the same plant immediately following the period of absence to be credited, and

(iv) it can be definitely established on the basis of records of the Corporation that the period of absence was not the result of a quit or discharge, plus

(3) for an employe with seniority on or after September 1, 1964 who makes proper application, any period of absence prior to October 1, 1950 under an approved military leave of absence immediately following any period of active service credited under Section 1(b)(1) of this Article, plus

(c) any additional period or periods of service with a company acquired by the Corporation prior to October 1, 1950 in which company the Corporation had a stock interest at the time of acquisition of such company, computed on the same basis as set forth in 1(b) above; provided, however, that the period of service for which the employe may receive credit for service with such company shall not extend prior to the date on which the employe was hired by the acquired company or the date at which the Corporation acquired an interest in such company, whichever is later.

Section 2. Credited Service Subsequent to October 1, 1950

(a) (1) Credited service commencing with October 1, 1950, and thereafter, shall be computed for each calendar year for each employe on the basis of total hours compensated by any plant or Division of the Corporation during such calendar year while the employe has unbroken seniority and prior to the employe's attaining age 68; except that an employe with seniority on or after September 1, 1964 may accrue credited service to the end of the month in which the employe attains age 68. Any calendar year in which the employe has 1700 or more compensated hours shall be counted a full calendar year. Where the employe's total hours compensated during a calendar year are less than 1700 hours, a proportionate credit shall be given to the nearest 1/10 of a year. For the calendar year 1950 no more than a year's credit will be given including credit for service prior to October 1, 1950.

(2) For the purpose of computing credited service, hours of pay at premium rate shall be computed as straight time hours.

(b) For the purpose of computing compensated hours under subsection (a) of this Section 2, an employe who after October 1, 1950 shall be absent from work because of occupational injury or disease incurred in the course of such employe's employment with the Corporation, and on account of such absence receives Workmen's Compensation while on Corporation approved leave of absence shall be credited with 40 hours for each complete calendar week of such absence after September 1, 1961. In no event shall such employe be credited with more than 1700 hours, including compensated hours, in any calendar year, and no such employe shall be credited with service under this subsection after retirement.

(c) Any salaried employe transferred to an hourly-rate job subsequent to October 1, 1950, who thereby becomes an employe covered by the Plan shall have credited to the nearest 1/10 year any credited service the employe had as of the date of such transfer under any Corporation retirement plan for salaried employes, provided that there shall be no duplication of credited service, nor credited service of more than one year in respect of any calendar year by virtue of this subsection.

(d) If an employe who retired or was retired under the Plan for reasons other than total and permanent disability is rehired, such employe shall not accumulate any additional credited service by reason of such reemployment.

(e) For the purpose of computing compensated hours under subsection (a) of this Section 2:

(1) An employe who after October 1, 1950 and prior to June 1, 1955 was absent from work because he entered into active service in the armed forces of the United States and who was given a Corporation approved leave of absence for such period shall be credited with the number of hours that the employe would have been scheduled to work during such absence.

(2) An employe, who on or after June 1, 1955 left or leaves work to enter into active service in the armed forces of the United States and for that reason was or is given a Corporation approved leave of absence, shall be credited with the number of hours while in service that he would have been scheduled to work during such leave, except that with respect to the period commencing September 1, 1961 such an employe will be credited with 40 hours for each complete calendar week that he is on such leave but in no event shall such employe be credited with more than 1700 hours, including compensated hours, in any calendar year; provided, however, that credited service based on such hours shall not exceed four years, or such longer period during which he has reemployment rights pursuant to any Federal law, and provided, further, that the employe is

reemployed in accordance with the terms of such leave of absence.

(f) Any employe hired on an hourly-rate job subsequent to October 1, 1950 by a plant or Division of the Corporation, who has credited service under any Corporation retirement plan for salaried employes or who has lost credited service under any such plan, shall, upon making proper application, have such service credited to the nearest 1/10 year; provided that there shall be no duplication of credited service nor credited service of more than one year in respect of any calendar year by virtue of this subsection; and provided, further, that the employe acquires or acquired a seniority date which is within 36 months following the last day the employe worked for the Corporation as a salaried employe prior to any such loss of credited service.

Section 3. Loss of Credited Service

After October 1, 1950 an employe will lose all credited service for purposes of this Plan and, if reemployed, shall be considered a new employe for purposes of this Plan:

(a) if the employe quits,

(b) if the employe is discharged or released,

(c) if the employe's seniority is broken for any other reason.

Section 4. Reinstatement of Credited Service

(a) Any employe who breaks or has broken seniority on or after October 1, 1950 and thereby loses or has lost credited service under Section 3 of this Article III and then is or was later reemployed by any plant or Division of the Corporation shall, upon making proper application, have such credited service reinstated provided the employe acquires or acquired a seniority date which is within 36 consecutive months following (i) the last day the employe worked for the Corporation prior to the loss of credited service or (ii) for an employe with seniority on or after September 1, 1964, the loss of seniority and credited service.

(b) Any employe retired under the total and permanent disability provisions of this Plan who subsequently has seniority reinstated, will have credited service at the time of disability retirement reinstated.

(c) Any employe who, because of total and permanent disability receives a separation payment under a supplemental unemployment benefit ("SUB") plan to which the Corporation contributes, and who subsequently recovers, reports for work, and has his seniority reinstated will have credited service at the time of such separation payment reinstated.

ARTICLE IV

REDETERMINATIONS ON ACCOUNT OF SOCIAL LEGISLATION

Section 1. Redeterminations for Federal Social Security Benefits for Age or Disability

(a) The benefits payable for age or disability under the Federal Social Security Act, as amended, as now in effect, or as hereafter amended, which are referred to in the determination of pensions under Article II shall be included in such determination even though the employe either does not apply for, or loses part or all of such payments through delay in applying for them, by entering into covered employment, or otherwise.

(b) Old age benefit payments or disability benefit payments, other than those payable on a basis of "need" or because of military service, under any future federal legislation, amending, superseding, supplementing, or incorporating the Federal Social Security Act, as amended, or benefits provided therein, shall be considered as benefits for age or disability under the Federal Social Security Act for the purposes of the Plan.

(c) If an employe is eligible for an unreduced Federal Social Security benefit for age or disability at the time of retirement or thereafter, such employe shall provide the Corporation with evidence of the effective date of entitlement to such benefit.

ARTICLE V

FINANCING

Section 1. Trust Fund

The Corporation shall execute a trust agreement with a trustee or trustees selected by the Corporation to manage and operate the pension fund and to receive, hold and disburse such contributions, interest and other income as may be necessary to pay such of the pensions and supplemental allowances or portions thereof under this Plan as are not provided for by an insured fund. The Corporation may establish an insured fund with such insurance company or companies as it may select for the payment of such of the pension and supplemental allowances or portions thereof under this Plan as are not provided for in a trusteed fund.

The Corporation will determine the form and terms of any such trust agreement which may authorize the inclusion of obligations and stock (common and preferred) of the Corporation and its wholly-owned subsidiaries among the investments of the pension fund provided for by such trust agreement; may modify any such trust agreement from time to time to accomplish the purposes of this Plan; may remove any trustee, and select any successor trustee; and select and change insurance companies.

Section 2. Contributions

(a) The Corporation, subject to Article IX, Section 1, shall make such contributions to the trustee or pay such premiums under any insured contract for the purposes of providing pensions and supplemental allowances under the Plan as shall be required under accepted actuarial principles to maintain the Plan and pension or insured fund in a sound condition and shall pay for expenses incident to the operation and management of the Plan.

(b) No employe shall be required to make any contributions to the Plan.

Section 3. Irrevocability

(a) The Corporation shall have no right, title or interest in the contributions made by it to the trustee and no part of the pension or insured fund shall revert to the Corporation, except that after satisfaction of all liabilities of the Plan as set forth in Article IX, such contributions as may have been made by the Corporation as the result of overpayments may revert to the Corporation.

(b) The pension benefits and supplemental allowances of the Plan shall be only such as can be provided by the assets of the pension fund or by any insured fund and there shall be no liability or obligation on the part of the Corporation to make any further contributions to the trustee or insurance company in event of termination of the Plan. No liability for the payment of pension benefits or supplemental allowances under the Plan shall be imposed upon the Corporation, the Officers, Directors or Stockholders of the Corporation.

ARTICLE VI

ADMINISTRATION

Section 1.

The Corporation shall be responsible for the general administration of the Plan and for carrying out the provisions thereof.

Section 2.

(a) The Corporation shall have all such powers as may be necessary to carry out the provisions of the Plan except as the powers and duties of the Corporation may be modified by any collective bargaining agreement.

(b) Subject to the limitations of (a) above, the Corporation may from time to time establish rules for the administration of the Plan and the transaction of the Plan's business.

(c) In making any such determination or rule, the Corporation shall pursue uniform policies and shall not discriminate in favor of, or against any employe or group of employes.

ARTICLE VII

PENSION BENEFITS AND SUPPLEMENTAL ALLOWANCES

Section 1. Pension and Supplemental Allowance Payments

(a) (1) Pensions and supplemental allowances shall be paid monthly.

(2) Until the Plan is approved by the Stockholders, the benefits payable shall be only those determined by the Plan as constituted prior to September 1, 1964 and upon approval by the Stockholders any excess of the sum of the amounts of pension and supplemental allowance, payable under the terms of this Plan, falling due for months commencing on or after September 1, 1964 over the amounts of pension actually paid or payable for such months shall become payable on or as of the first of the month following the date upon which the Plan is approved by the Stockholders.

(3) The first monthly payment of an employe's pension other than for total and permanent disability shall be on the first day of the month following the month in which the employe actually retires, and the pension shall be payable monthly thereafter.

(4) Total and permanent disability pensions shall be payable monthly during the continuance of total and permanent disability and while the pensioner otherwise remains eligible for such benefits. Such payments shall begin the later of:

(i) the first day of the month which includes the date the required proof of disability is received by the Corporation, or

(ii) the first day of the month which includes the date the employe has been continuously and totally disabled for a period of 6 months.

Successive periods of absence due to the same disability as that upon which claim for total and permanent disability pension is based and aggregating at least six months will be considered the same as one continuous absence provided that the aggregate will not include any such absence which precedes the last day at work by more than one year.

(5) A supplemental allowance for an employe shall be payable in the manner provided in Section 7 of Article II.

(6) Pension and supplemental allowance payments shall not be payable with respect to any period for which weekly sickness or accident benefits

are payable to the employe under any plan to which the Corporation has contributed. If such sickness and accident benefits during any month are payable for a period of less than 4⅓ weeks the sum of the monthly pension benefit and supplemental allowance payable for that month shall be reduced by the percentage which such period of sickness and accident benefits is of 4⅓ weeks.

(b) A pensioner who is reemployed by the Corporation shall continue to receive, during such reemployment, any monthly pension benefits to which the pensioner might otherwise be entitled. The pensioner shall not accrue any additional credited service as a result of such employment and the monthly pension benefits of such pensioner shall not be adjusted in any way with regard to such employment upon subsequent cessation of active service. This sub-section (b) is not applicable to a disability pensioner who recovers and returns to work, provision for whom is made in Article II, Section 4(d) and Article III, Section 4(b).

(c) In the event that it shall be found that any pensioner or surviving spouse to whom a pension or survivor benefit is payable is unable to care for the affairs of such pensioner or surviving spouse because of illness or accident any monthly pension payment and supplemental allowance or survivor benefit due (unless prior claim therefor shall have been made by a duly qualified guardian or other legal representative) may be paid to the spouse, parent, brother, sister or other person or party (including private or public institutions) deemed by the Corporation to have incurred expense for such pensioner otherwise entitled to payment. Any such payment shall be a payment for the account of the pensioner and shall be a complete discharge of any liability of the Plan therefor.

Section 2. Retention of Deferred Pension if Separated

(a) Any employe who loses accumulated credited service under the provisions of Article III, Section 3 by breaking seniority on or after June 1, 1955 shall be eligible for a deferred pension if such employe then has attained age 40 but has not attained age 60 and is not retired and eligible for pension benefits pursuant to Article II, and provided the credited service of such employe at separation is at least 10 years; except that the age 40 limitation shall not apply to any employe who breaks seniority on or after September 1, 1964.

(b) The monthly amount of such deferred pension for an employe breaking seniority

(1) prior to September 1, 1958 shall be $2.25 multiplied by the employe's credited service in effect at the time of such loss of credited service less any such service credited for any

period prior to January 1 of the year in which the employe attains or attained age 30;

(2) on or after September 1, 1958 and prior to September 1, 1961 shall be (i) $2.40 for each year of credited service accrued prior to January 1, 1958, (ii) $2.43 multiplied by credited service accrued in the year 1958 and (iii) $2.50 for each year of credited service accrued subsequent to December 31, 1958; provided that no credited service shall be used in this calculation for any period prior to January 1 of the year in which the employe attains or attained age 30;

(3) on or after September 1, 1961 and prior to September 1, 1964 shall be:

(i) for any deferred pension falling due for months commencing prior to January 1, 1962, an amount determined in accordance with Section 1(b)(2) of Article II hereof; and

(ii) for any deferred pension falling due for months commencing on or after January 1, 1962, $2.80 for each year of credited service.

(4) on or after September 1, 1964 shall be:

(i) for any deferred pension falling due for months commencing prior to January 1, 1965, $2.80 for each year of credited service; and

(ii) for any deferred pension due for months commencing on or after January 1, 1965, $4.25 for each year of credited service.

(c) A former employe who is eligible for a deferred pension with benefits payable commencing on or after January 1, 1962 may at the election of such former employe receive either

(1) a monthly pension commencing at or after age 65 determined in accordance with subsection (b) of this Section 2, or

(2) a monthly pension commencing after age 60 and prior to age 65 determined in accordance with subsection (b) of this Section 2, such pension being reduced by 6/10 of 1 per cent for each complete calendar month by which such former employe is under the age of 65 at the date the deferred pension commences.

(d) The deferred pension shall be payable commencing the later of the first day of the month following the month (i) in which such employe attains age 65 or, effective January 1, 1962, age 60, or (ii) during which the Corporation receives a written request from such former employe; provided that such written request shall be valid and effective only if it is filed with the Corporation not earlier than 60 days prior to his 60th birthday and not later than his 70th birthday, otherwise no deferred vested pension benefit shall be payable at any time.

(e) If, prior to the commencement of deferred pension benefits, an employe

(i) is reemployed by the Corporation and acquires seniority, or

(ii) is reemployed by, and works for, the Corporation on or after September 1, 1964 at the plant where he worked immediately prior to the loss of his credited service

after having qualified for a deferred pension in accordance with this Section 2, such employe shall, in lieu thereof, have reinstated the credited service in effect when such deferred pension was granted; provided such employe qualified for such reinstatement under Section 4(a) of Article III, otherwise, such employe shall have reinstated the credited service on which the deferred pension of such employe was based.

(f) Commencing January 1, 1965, if a former employe who is eligible for a deferred pension has not applied by the 90th day prior to the date he attains age 65, a notice will be sent to his last known address informing him of his right to apply for a deferred pension.

Section 3. Non-Alienation of Benefits

The pension fund shall not in any manner be liable for or subject to the debts or liability of any employe, separated employe, retired employe or pensioner. No right, benefit, pension or supplemental allowance at any time under the Plan shall be subject in any manner to alienation, sale, transfer, assignment, pledge or encumbrances of any kind. If any person shall attempt to, or shall, alienate, sell, transfer, assign, pledge or otherwise encumber accrued rights, benefits, pensions or supplemental allowances under the Plan or any part thereof, or if by reason of bankruptcy or other event happening at any time such benefits would otherwise be received or enjoyed by anyone else, the Corporation in its discretion may terminate the interest of such employe or pensioner in any such benefit and instruct the trustee to hold or apply it to or for the benefit of such employe or pensioner, his or her spouse, children or other dependents, or any of them as the Corporation may instruct; provided, however, that any pensioner, or surviving spouse entitled to a monthly benefit under Section 6 of Article II, who elects Blue Cross, Blue Shield, or equivalent coverage, made available under the General Motors Insurance Program for Hourly-Rate Employes (Exhibit B-1) may, insofar as it is consistent with the regulations governing the plans providing such coverage, participate in such coverage and have deducted from the monthly pension and any supplemental allowance, if the monthly pension shall be insufficient, of such pensioner or surviving spouse, pursuant to the pensioner's or surviving spouse's written authorization and direction acceptable to the Corporation, the required contribution for such coverage.

ARTICLE VIII

MISCELLANEOUS PROVISIONS

Section 1. No Enlargement of Employment Rights

The Corporation's rights to discipline or discharge employes shall not be affected by reason of any of the provisions of the Plan.

Section 2. Internal Revenue Service Approval

This Plan as amended is contingent upon and subject to obtaining and retaining such approval of the Commissioner of Internal Revenue as may be necessary to establish the deductibility for income tax purposes of any and all contributions made by the Corporation under this Plan as being qualified for tax exemption under the provisions of Sections 401, 404, and 501(a) or other applicable provisions of the Internal Revenue Code. Any modification or amendment of the Plan may be made retroactively, if necessary or appropriate, to qualify or maintain the Plan as a plan and trust meeting the requirements of Sections 401, 404, and 501(a) of the Internal Revenue Code, as now in effect or hereafter amended, or any other applicable provisions of the federal tax laws, as now in effect or hereafter amended or adopted, and the regulations issued thereunder.

Section 3. Corporation Board of Directors and Stockholders Approval

Continuation of the Plan as amended in 1964 is contingent upon obtaining the approval of the Corporation's Board of Directors and Stockholders not later than June 1, 1965.

ARTICLE IX

AMENDMENT AND TERMINATION

Section 1. Amendment

The Corporation reserves the right to amend, modify, suspend or terminate the Plan by action of its Board of Directors, provided, however, that no such action shall alter the Plan or its operation, except as may be required by the Internal Revenue Service for the purpose of meeting the conditions for qualification and tax deduction under Sections 401, 404, and 501(a) of the Internal Revenue Code, in respect of employes who are represented under a collective bargaining agreement in contravention of the provisions of any such agreement pertaining to pension benefits and supplemental allowances as long as any such agreement is in effect. Except as provided in Article V, Section 3, no such action shall operate to recapture for the Corporation any contributions previously made to the trustee or insurance company under the Plan, nor, except to the extent necessary to meet the requirements of the Internal Revenue Service or any other governmental authority, to affect adversely the pensions or supplemental allowances of employes already retired or the trust fund or insured fund then securing such pensions and supplemental allowances.

Section 2. Termination of Plan

If the Corporation terminates the Plan in accordance with Section 1 above any Corporation contributions made after such termination for the duration of any collective bargaining agreement shall be segregated by the trustee as a separate fund or funds for disposition as hereinafter provided. The amount of the trust fund assets otherwise held by the trustee shall be allocated, after deducting any balance in the fund attributable to the supplemental allowances, subject to provision for expenses of administration or liquidation, for the following pension purposes and in the following manner and order to the extent of the sufficiency of such assets:

(a) First, to provide the pensions for life to the persons who (i) are pensioners under the Plan on its date of termination, (ii) are surviving spouses with benefits payable pursuant to Section 6 of Article II of the Plan on its date of termination, or (iii) are spouses of pensioners whose elections, if any, have become effective pursuant to Section 6 of Article II of the Plan. The allocation of the amount for this purpose shall be based on immediate life annuity values without death benefit, as determined by the actuary of the Plan. Any reductions in such pensions revealed as necessary by the insufficiency of the trust fund assets at or after the date of termination of Plan shall be determined by the actuary in a uniform manner on the basis of similar annuity values.

(b) Second, if any such assets remain after complete allocation for the purposes of (a) above, to provide the pensions for life, to the extent possible, to employes who (i) have reached their normal retirement date, or (ii) have been approved for disability pensions, but have not commenced to receive their pensions by the date of termination of the Plan. The allocation of the amounts, if any, for full or reduced pensions for such employes shall be on the basis of immediate life annuity values without death benefit in the same manner, with application for reduction of pensions, as in (a) above.

(c) Third, if any such assets remain, after complete allocation for the purposes of (a) and (b) above, they shall be allocated to the employes who were eligible to retire under the early retirement provisions of Article II, Section 2, on the date of termination of the Plan. The allocation of the amount for this purpose shall be computed on the early retirement pension to which they would have been entitled on such date if retired under Article II, Section 2(c)(2), and shall be based on immediate life annuity values without death benefit in the same manner, with application for reduction of pensions, as in (a) above.

(d) Fourth, if any such assets remain after the complete allocation for the purposes of (a), (b), and (c) above, they shall be allocated to employes not provided for above who are less than age 60 and whose combined years of age (to the nearest 1/12) and credited service shall total at least 60 on the date of termination of the Plan. The allocation of the amount for this purpose shall be on a basis proportionate to the actuarial value of their pension interests at their normal retirement date based on credited service on the date of termination of the Plan but the amount so allocated shall not exceed the value of such interests of such employes.

(e) Fifth, if any such assets remain after the complete allocation for the purposes of (a), (b), (c), and (d) above, they shall be allocated to employes who remain who have a pension interest because of credited service on the date of termination of the Plan, but not beyond the value of such interest, on a basis proportionate to the actuarial value of such interests of such employes. Within this group shall be included such separated employes with eligibility for deferred pensions under the provisions of Article VII, Section 2 as (i) make written inquiry regarding their interests within one year subsequent to the date of termination of the Plan, or (ii) respond within one year after the date of mailing of a registered letter which the Corporation or trustee shall direct to the last known address, on the records of the Corporation, of each such separated employe.

In addition to the allocation as of the date of the termination of the Plan, of the trust fund as set forth in the foregoing subparagraphs (a), (b), (c), (d), and (e), any separate fund or funds held by the trustee in accordance with the first sentence of this Section 2, shall be allocated under the same basis, procedure and order as in such subparagraphs, for the purpose of providing any employes or pensioners who are represented by any such collective bargaining agreement and whose pensions are reduced or are not reached by the main allocation under (a), (b), (c), (d), and (e) above, with their pensions or the balances thereof, as the case may be, to the extent possible through the complete allocation of such separate fund or funds.

The allocation referred to in this Section 2 when determined by the actuary and trustee, may be implemented through the continuance of the existing trust fund or through a new trust instrument for that purpose or through the purchase by the trustee of insurance company annuity contracts or by a combination of these media.

If the allocations produce a pension of less than $40 a year for any person, the trustee may pay in lieu of a pension a lump sum of equivalent actuarial value.

The balance attributable to the supplemental allowances referred to above shall be used to continue payments of supplemental allowances to employes retired under the Plan prior to its termination. If the balance is insufficient, such supplemental allowances shall be proportionately reduced. If the balance is more than sufficient, the excess shall be allocated in accordance with the first paragraph of this Section 2.

ARTICLE X

DEFINITIONS

1. Employe

(a) Any person regularly employed in the United States by the Corporation or by a wholly-owned or substantially wholly-owned domestic subsidiary thereof, on an hourly-rate basis, including:

(1) hourly-rate persons employed on a full time basis;

(2) hourly-rate persons on incentive pay plans;

(3) General Motors Institute students and students from other educational institutions who are enrolled in cooperative training courses on hourly rate;

(4) part time hourly-rate employes who, on a regular and continuing basis, perform jobs having definitely established working hours, but the complete performance of which requires fewer hours of work than the regular work week, provided the services of such employes are normally available, for at least half of the employing unit's regular work week.

(b) The term "employe" shall not include:

(1) temporary employes,

(2) employes represented by a labor organization which has not signed an agreement making this Plan applicable to such employes.

2. Effective Date of Plan and Amendments

(Plan) October 1, 1950
(1st Amendments) June 1, 1953
(2nd Amendments) June 1, 1955
(3rd Amendments) September 1, 1958
(4th Amendments) September 1, 1961
(5th Amendments) Not later than June 1, 1965

3. Trustee or Insurance Company

The bank or banks, trust or insurance company or companies or any combination thereof designated by a trust agreement or contract as the medium for financing the Plan.

4. Seniority

Seniority means the period following the most recent date of hire by the Corporation and subsequent to which there has been no loss of credited service (as loss of credited service is defined in the Plan), or if the employe is represented under a collective bargaining agreement seniority will be as defined in such agreement.

5. Unreduced Federal Social Security Benefit

An unreduced Federal Social Security benefit for age or disability means a benefit determined and payable under Title II of the Federal Social

Security Act, as now in effect or as hereafter amended, without any reduction being made therefrom.

6. Trust Fund; Pension Fund; Insured Fund

The General Motors Hourly-Rate Employes Pension Plan fund established by payments made by the Corporation in accordance with Article V herein. Such fund therein called the trust fund shall be comprised of either a pension fund or insured fund, or a combination thereof.

7. Base Hourly Rate

(a) For an employe who is covered by a supplemental unemployment benefit ("SUB") plan to which the Corporation contributes, Base Hourly Rate shall be as defined in Article IX, Section 4(a), but without the adjustment in Article IX, Section 4(c) of the "SUB" plan in effect for him at the date of his retirement, plus any cost-of-living allowance in effect with respect to the employe's last day worked for the Corporation but excluding overtime additions to straight-time pay, shift differentials, payment-in-lieu of vacation, or any other extra compensation.

(b) For any other employe, Base Hourly Rate shall be the rate which would be applicable if the employe were covered under a "SUB" plan to which the Corporation contributes.

ARTICLE XI

TREATMENT OF HOURLY-RATE EMPLOYES FORMERLY COVERED BY THE EUCLID ROAD MACHINERY COMPANY'S HOURLY-RATE EMPLOYES PENSION PLAN

Section 1. Merger of Plans

Effective August 1, 1955, the Euclid Road Machinery Company's Pension Plan hereinafter referred to as the Euclid Pension Plan, was merged into the General Motors Hourly-Rate Employes Pension Plan.

Section 2. Credited Service

Hourly-rate employes of the Euclid Division who were covered under the Euclid Pension Plan as of July 31, 1955, including those persons then receiving benefits under such Plan, shall have credited under the General Motors Hourly-Rate Employes Pension Plan as of August 1, 1955 any credited service they had under the Euclid Pension Plan as of July 31, 1955, provided that there shall be no duplication of benefits or credited service, and no credited service of more than one year in respect of any calendar year.

Section 3. Special Benefit

Hourly-rate employes of the Euclid Division who had not broken seniority as of August 1, 1950 and who were covered by the Euclid Pension Plan as of July 31, 1955, including those persons then receiving benefits under such Plan, who reach or have reached the automatic retirement date provided under Article II, Section 3(a) with more than 5 but less than 10 years of credited service shall be eligible to receive a monthly pension in an amount as provided under Article II, Section 3(b), for any monthly pension falling due on or after August 1, 1955.

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MISCELLANEOUS
PENSION PLAN
DOCUMENTS

Misc. (Stds. ltr.)

GENERAL MOTORS CORPORATION

October 5, 1964

Mr. Leonard Woodcock, Vice President
Director -- GM Department
International Union, UAW
8000 East Jefferson Avenue
Detroit 14, Michigan

Dear Mr. Woodcock:

Attached for your information are copies of the standards adopted by the Corporation to implement retirements at the option of the Corporation or under mutually satisfactory conditions in accordance with provisions of the General Motors Hourly-Rate Employes Pension Plan.

Very truly yours,

/s/ LOUIS G. SEATON
Louis G. Seaton
Vice President

Misc. (Stds. ltr.)

STANDARDS FOR APPLICATION OF PROVISIONS REGARDING RETIREMENT AT THE OPTION OF THE CORPORATION OR UNDER MUTUALLY SATISFACTORY CONDITIONS

GENERAL MOTORS HOURLY-RATE EMPLOYES PENSION PLAN

Article II, Sections 2(a) and 2(b) of the General Motors Hourly-Rate Employes Pension Plan provides that an employe may be retired early at the option of the Corporation or under mutually satisfactory conditions providing he is otherwise eligible. In either case, the following standards have been adopted by the Corporation as a guide in the application of these provisions.

STANDARDS

A. An employe who is unable to work efficiently by reason of permanent disability

The retirement must be in the best interests of the Corporation. It is also intended to benefit employes who are unable to work efficiently by reason of permanent disability. It contemplates that the efficiency of operation will be improved by reason of the retirement which may be the case in any of the following situations:

(1) The employe is no longer physically or mentally capable of performing his work in an efficient and satisfactory manner.

(2) The employe, though still capable of performing his work satisfactorily, is prevented by chronic physical illness or physical disability (less than total) from working regularly to the extent that efficiency of operation is interfered with.

(3) The employe's condition, based on medical evidence satisfactory to the Corporation, is such that, although able to perform the duties of his job efficiently and satisfactorily, he would thereby be jeopardizing his health or that of fellow employes.

(4) The employe is on disability leave or is laid off because he is unable to do the work offered by the Corporation efficiently and satisfactorily although able to perform efficiently and satisfactorily other work in the plant to which he would have been entitled if he had had sufficient seniority, and his condition, based on medical evidence satisfactory to the Corporation, is expected to be continuous until his normal retirement age.

B. An employe who is laid off:

(1) Consideration for retirement at the option of the Corporation or under mutually satisfactory conditions may be given to an employe who is laid off as a result of a plant closing or discontinuance of operations and has not been offered suitable

work by the Corporation in the same labor market area.

(2) Consideration for retirement at the option of the Corporation or under mutually satisfactory conditions may also be given to an employe whose layoff appears to be permanent and has not been offered suitable work by the Corporation in the same labor market area; and who appears to have no further opportunity for employment with the Corporation.

GM-UAW Pension Subcommittee

Date: September 24, 1964
Time: 9:40 P.M.

It was agreed in this Pension Subcommittee meeting that disability pensioners who have attained age 60 but not age 65 at September 1, 1964, and who under the new agreement would be eligible to elect the survivor's option, would automatically be covered (i.e., presumed to have elected such survivor option with immediate effect) from date of ratification of the new agreement to the later of (a) 10 days following mailing of notice by the Corporation to such disability pensioners with respect to their eligibility to elect such survivor's option under Article II, Section 6(a)(1)(ii) of the Pension Plan, or (b) October 31, 1964.

GM-UAW Pension Subcommittee

Date: September 24, 1964
Time: 9:50 P.M.

Corporation representatives stated in this Pension Subcommittee meeting that an employe who receives a compromise settlement of his Workmen's Compensation claim, and has his seniority canceled, will be fully informed prior to the cancellation of his seniority of the effect such cancellation of seniority will have upon his eligibility for benefits under the General Motors Hourly-Rate Employes Pension Plan, Insurance Program and Supplemental Unemployment Benefit Plan.

EXHIBIT B

SUPPLEMENTAL AGREEMENT

(Insurance Program)

INDEX TO

EXHIBIT B—Supplemental Agreement Between General Motors Corporation and the UAW-AFL-CIO (Insurance Program)

and

EXHIBIT B-1—The General Motors Insurance Program for Hourly-Rate Employes

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On this 5th day of October, 1964, General Motors Corporation hereinafter referred to as the Corporation, and the International Union, United Automobile, Aerospace and Agricultural Implement Workers of America, affiliated with the American Federation of Labor and Congress of Industrial Organizations, hereinafter referred to as the Union, on behalf of the employes covered by the Collective Bargaining Agreement of which this Supplemental Agreement becomes a part, agree as follows:

Section 1. Establishment of Program

Subject to the approval of its Board of Directors the Corporation will establish an amended insurance program, hereinafter referred to as the "Program", a copy of which is attached hereto as Exhibit B-1 and made a part of this Agreement to the extent applicable to the employes represented by the Union and covered by this Agreement as if fully set out herein, modified and supplemented, however, by the provisions hereinafter. In the event of any conflict between the provisions of the Program and the provisions of this Agreement, the provisions of this Agreement will supersede the provisions of the Program to the extent necessary to eliminate such conflict.

In the event that the Program is not approved by the Board of Directors of the Corporation, the Corporation, within 30 days after any such disapproval, will give written notice thereof to the Union and this Agreement shall thereupon have no force or effect. In that event the matters covered by this Agreement shall be the subject of further negotiation between the Corporation and the Union.

In the event the initiation of any benefit or benefits described in Article III of the Program does not prove practicable or is not permitted by the plans under which coverage is provided on the dates stipulated in such Article III, the Corporation in agreement with the Union will provide new benefits and/or coverage as closely related as possible and of equivalent value to those not provided.

Section 2. Financing

(a) The Corporation agrees to pay the contributions due from it for the Program in accordance with the terms and provisions of Exhibit B-1.

(b) The Corporation by payment of its contributions to (i) the premiums on any insurance policy or policies issued by an insurance company or companies selected by the Corporation in accordance with the Program, and (ii) the subscription rates of any Blue Cross, Blue Shield or other plan providing hospital or medical expense benefits shall be relieved of any further liability with respect to the benefits of the Program provided under such policy, policies, or plans.

(c) Corporation contributions for Hospital and Medical Expense Benefits pursuant to the provisions of Article I, Section 3(b)(2) of the Program for employes on layoff shall be as follows:

(1) In any month during which the employe is continuously laid off for one of the reasons set forth in Article I,

Section 4(a) of the Supplemental Unemployment Benefit Plan attached as Exhibit C-1 to the Agreement between the parties dated October 5, 1964, and with respect to such month receives no earnings from the Corporation, the Corporation shall contribute the full cost of continued coverages for a maximum period determined in accordance with the following table:

Maximum Number of Full Weekly SUBenefits to Which Employe's Credit Units As of Last Day Worked Prior to Layoff Would Entitle Him	Maximum Number of Months for Which Hospital and Medical Expense Coverages Will be Continued Without Cost to Employe
Less Than 4	0
4- 7	1
8-11	2
12-15	3
16-19	4
20-23	5
24-27	6
28-31	7
32-35	8
36-39	9
40-43	10
44-47	11
48-52	12

In applying the above table, the "Maximum Number of Full Weekly SUBenefits to Which Employe's Credit Units as of Last Day Worked Prior to Layoff Would Entitle Him" shall be determined by dividing the number of the employe's Credit Units under the Supplemental Unemployment Benefit Plan by the number of Credit Units to be canceled for one SUBenefit in accordance with the Credit Unit Cancellation Table contained in Article III, Section 4 of such Supplemental Unemployment Benefit Plan, based on the employe's seniority and the Credit Unit Cancellation Base in effect as of the last day worked prior to layoff. The "Maximum Number of Months for Which Hospital and Medical Expense Coverages Will be Continued Without Cost to Employe" shall commence with the first full calendar month of layoff for which contributions have not been made.

(2) With respect to any period of continuous layoff, changes in an employe's Credit Units, Seniority or the Credit Unit Cancellation Base subsequent to the date layoff begins shall not change the number of months of Corporation contributions for which such employe is eligible.

(3) In the event that the Supplemental Unemployment Benefit Plan, attached as Exhibit C-1 to the 1964 Supplemental Agreement (Supplemental Unemployment Benefit Plan) of the Collective Bargaining Agreement of which this Agreement is a part, shall be terminated in accordance with its terms prior to the expiration date of such 1964 Supplemental Agreement, this subsection (c) shall thereupon cease to have any force or effect.

(d) Unless otherwise specifically provided herein, the Corporation shall pay all expenses incurred by it in the administration of the Program.

Section 3. Corporation Options

(a) The options afforded the Corporation to provide a plan of benefits supplementary to state plan benefits or to substitute a private plan of benefits for state plan benefits as provided in Sections 4(a) and 4(b) respectively in Article I of the Program shall not be exercised except by mutual agreement between the Corporation and the Union.

(b) The option afforded the Corporation to provide a plan of benefits supplementary to the Federal benefits or to substitute a plan of benefits for the benefits provided by the Federal laws as provided in Sections 5(a) and 5(b) respectively in Article I of the Program shall not be exercised except by mutual agreement between the Corporation and the Union.

(c) The options afforded the Corporation to select hospital and medical expense benefit plans as provided in Article III of the Program shall not be exercised except by mutual agreement between the Corporation and the Union.

(d) If, in any locality where there are substantial numbers of employes enrolled in a local Blue Shield plan which fails to provide benefits (i) of the M-75 Certificate and riders thereto available to employes in Michigan by July 1, 1965, and (ii) of the riders referred to in Article III, Section 1(a)(2) and (3) of the Program by September 1, 1966, in reasonable conformance with such benefits provided employes in Michigan, by mutual agreement between the Corporation and the Union, supplementary or replacement benefits shall be provided through a plan which provides benefits on a reasonable and customary fee basis.

Section 4. Administration

(a) The Corporation shall have the responsibility for administration of the Program.

(b) Each year the Corporation will furnish or will request the insurance company to furnish the Union the following information:

(1) With respect to coverages provided under Article II of the Program:

(i) Number of employes insured and aggregate insurance in force by insurance bracket and by type of coverage during a representative month in the preceding calendar year;

(ii) Average number of lives by type of coverage insured in the preceding calendar year;

(iii) Unit premiums, total premiums paid, claims paid or incurred, by type of coverage for the preceding calendar year;

(iv) Increase in reserves, by type of reserve, during the preceding calendar year;

(v) Interest allowed on reserves, expenses and taxes, net cost and refund of excess premiums, and employe contributions for the preceding calendar year;

(vi) Amount of reserves by type of reserve at the end of the preceding calendar year;

(vii) Number of insured deaths by insurance brackets, age and sex of deceased for the preceding calendar year;

(viii) Number of insured deaths for the preceding calendar year for which survivor income benefits, either Transition Survivor Income Benefit only or Transition Survivor Income Benefit and Bridge Survivor Income Benefit, become payable;

(ix) Frequency and duration of Sickness and Accident Benefit claims closed during the preceding calendar year.

(2) With respect to coverages provided under Article III of the Program:

(i) number of employes, retired employes, and employes terminated at age 65 or older for any reason other than discharge for cause, with hospital and medical expense coverages and contributions, by enrollment classification and local Plan area during a representative month in the preceding calendar year;

(ii) total number and amount of pension deductions for hospital and medical expense coverages during a representative month in the preceding calendar year.

(c) Any provisions which may be established pursuant to Article III, Section 8 of the Program shall be implemented by mutual agreement between the Corporation and the Union.

(d) A Committee composed of an equal number of members designated by the Union and an equal number of members designated by the Corporation shall be established to study and evaluate the Hospital and Medical Expense coverages provided under Article III of the Program and to make recommendations for the purpose of achieving the maximum coverage and service for the employes covered by the various hospital and medical expense benefit plans for the money spent for such protection. In the performance of its duties, this Committee shall consult and advise with representatives of organizations providing the health benefits and services and keep the parties to the Agreement informed with respect to the problems which arise in the operation of such coverages.

(e) A representative of the Corporation and the Union will review a copy of the group insurance contract and any riders or amendments thereto. In the event of any conflict between the provisions of the contract and any riders or amendments thereto and the provisions of this Supplemental Agreement, the Corporation shall have the group insurance contract and any riders or amendments thereto modified so that provisions of such contract document shall be in agreement with the provisions of this Supplemental Agreement.

Section 5. Coverages During Union Leave of Absence

An employe who is on leave of absence requested by his Local Union to permit him to work for the Local Union may continue until the date such leave or any extension thereof ceases to be operative all Group Insurance and Hospital and Medical Expense Benefit coverages provided in Articles II and III, respectively, of the Program, by paying the applicable contributions which were in effect under the previous Agreement. Furthermore, such a leave of absence existing on the applicable effective date of the amended Program for an employe working for a Local Union will not operate to defer the effective date of any coverage for such an employe under the Program.

Section 6. Coverages During Period of Appeal Following Loss of Seniority

In the case of an employe who on or after October 1, 1964, loses his seniority pursuant to Paragraphs (64)(a), (64)(b), (64)(c), (64)(d), (111)(a), or (111)(b) of the Collective Bargaining Agreement, and if such employe is seeking to have his seniority reinstated through the grievance procedure established in the Collective Bargaining Agreement, Life and Extra Accident Insurance and Hospital and Medical Expense Benefit coverages provided in Articles II and III, respectively, of the Program, may be continued while his grievance is pending for a period of up to 12 consecutive months following the last month of coverage for which the Corporation or the employe contributed for such coverages prior to loss of seniority. The employe shall contribute 50¢ per month per $1000 of Life Insurance and the full monthly premiums or subscription charges for Hospital and Medical Expense Benefit coverages continued hereunder.

Section 7. Non-Applicability of Collective Bargaining Agreement Grievance Procedure

No matter respecting the Program as modified and supplemented by this Agreement or any difference arising thereunder shall be subject to the grievance procedure established in the Collective Bargaining Agreement between the Corporation and the Union.

Section 8. Duration of Agreement

This Agreement and Program as modified and supplemented by this Agreement shall continue in effect until the termination of the Collective Bargaining Agreement of which this is a part.

In witness hereof, the parties hereto have caused this Agreement to be executed the day and year first above written.

International Union, United Automobile, Aerospace and Agricultural Implement Workers of America, AFL-CIO	**General Motors Corporation**
Walter P. Reuther	Louis G. Seaton
Leonard Woodcock	Earl R. Bramblett
E. J. Moran	G. B. Morris, Jr.
Frank James	F. H. Schwarze
Hubert Gillespie	G. L. Wright
Clarence Lyons	H. D. Garrett
Joseph Malotke	W. S. Byrne
John E. Turner	K. H. Middleton
Darwin Wagie	R. W. Clark
William E. Tennant	B. P. Crane, Jr.
John DeVito	W. A. Brunstad
Ross E. Drennon	J. F. Quinn
Maurice Treadwell	F. W. Angle
James Patterson	J. C. Edwards
Francis Lang	E. A. Hodge
Howard Smith	D. H. Pfeifer
	R. E. Deeds, Jr.
	J. M. Gillen
	V. M. Zink
	S. L. Cole, Jr.
	R. A. Lennox
	C. D. Eavenson

EXHIBIT B-1

THE GENERAL MOTORS INSURANCE PROGRAM FOR HOURLY-RATE EMPLOYES

ARTICLE I

ESTABLISHMENT, FINANCING AND ADMINISTRATION OF INSURANCE PROGRAM

Section 1. Establishment and Effective Date of Program

(a) ***Establishment of Program***

General Motors Corporation on behalf of itself and its Divisions and as agent for its directly or indirectly wholly-owned and substantially wholly-owned domestic subsidiaries, will establish an Insurance Program either through a self-insured plan or under a group insurance policy or policies issued by an insurance company or insurance companies or by arrangement with various Blue Cross, Blue Shield, or other non-profit plans; as set forth in Articles II and III herein.

(b) ***Effective Date of Amended Program***

(1) That portion of the Program set forth in Article II shall become effective October 1, 1964, except as provided in Article II, Section 9(b).

(2) That portion of the Program set forth in Article III shall become effective as to each participating group as determined by the Corporation on October 1, 1964, or as soon there-

after as practicable, provided, however, that the portion of the Program set forth in Article III, Section 1(a)(2) and (3) shall become effective as to each participating group as determined by the Corporation on September 1, 1966, except as otherwise noted.

Section 2. Enrollment Options

An eligible employe electing to enroll in the Program must complete an application for the coverages in which he elects to participate. For coverages under Article III, Section 1(d), an authorization for payroll or pension deductions for contributions shall be completed. For coverages under Article III, an authorization for pension deductions for contributions shall be completed by an eligible surviving spouse. An employe may not elect to be insured under Article II without taking all of the coverages thereunder.

Section 3. Corporation Contributions and Administration

(a) ***Corporation Contributions for Group Insurance***

(1) Employes in Active Service

Effective with contributions due in the month of October, 1964, and in each month thereafter, the Corporation shall pay the full monthly premium charge for insurance provided under Article II for an employe with respect to any month in which the employe has earnings from the Corporation, except as may otherwise be provided under Section 4 of this Article.

(2) Employes on Layoff and Leave of Absence Other than for Disability

Effective with layoffs and leaves of absence, other than for disability, commencing on or after October 1, 1964, the Corporation shall pay the full monthly premium charge for insurance provided under Article II due in the first month after the month in which the employe's layoff or leave of absence commences.

(3) Employes on Approved Disability Leave of Absence Which Commenced While Employe is Insured for Sickness and Accident Benefits

Effective with disability leaves of absence commencing on or after October 1, 1964, and while the employe is insured for Sickness and Accident Benefits, the Corporation shall pay the full monthly premium charge for insurance provided under Article II due in any month in which the employe is entitled to receive Sickness and Accident Benefits or is totally and continuously disabled while he remains on an approved disability leave of absence, but not to exceed the period equal to the employe's Years of Participation as of the first day of disability.

The Corporation shall also pay the balance of the net cost of the Program as set forth in Article II over and above any employe contributions specified in Article II, and the cost of benefits as presently provided to General Motors employes under the New York, New Jersey, and California disability benefit laws. It shall also pay any increase in such costs and shall receive and retain any divisible surplus, credits or refunds or reimbursements under whatever name, arising out of any such Program.

(b) *Corporation Contributions for Hospital and Medical Expense Coverages*

The Corporation shall make monthly contributions for that portion of the Program set forth in Article III on behalf of an enrolled employe and those covered dependents described in Article III, Section 1(c) as follows:

(1) Employes in Active Service

With respect to any month in which the employe has earnings from the Corporation, the amounts of such Corporation contributions shall be as follows:

(i) If such Corporation contributions are for a local Blue Cross or other plan providing Hospital Expense Benefits or a local Blue Shield or other plan providing Medical Expense Benefits they shall in each case be equal to the full monthly subscription rate for the classification in which the employe is enrolled according to the employe's marital status and number of his dependents.

(ii) As to employes whose Hospital or Medical Expense Benefits are provided in whole or in part under a policy or policies issued by an insurance company, the Corporation shall contribute the full net monthly premium charge for such insurance.

(2) For Employes on Layoff

(i) The Corporation has established certain schedules related to eligibility for Supplemental Unemployment Benefits, to seniority, or on some other basis, under which the Corporation will contribute during a specified number of full calendar months of layoff the full cost of coverages continued in accordance with Article III, Section 3(a).

(ii) Employes shall contribute the full premium or subscription charge for such coverages continued in any month of layoff in which they are not eligible for such Corporation contributions.

(3) For Employes on Disability Leave

Effective with approved disability leaves of absence commencing on or after October 1, 1964, the Corporation shall contribute for the duration of an approved disability leave of absence the full cost of coverages continued in accordance with Article III, Section 3(c), provided the employe is totally and continuously disabled. Employes shall contribute the full premium or subscription charge for such continued coverages in any month in which they are not eligible for such Corporation contributions.

(4) For Employes on Other Leaves of Absence

Employes continuing their coverages in accordance with Article III, Section 3(d) while on approved leaves of absence other than for disability shall contribute the full premium or subscription charge in each full month such coverages are continued.

(5) Optional Group Medical Practice Plan Coverages

For employes subscribing to the Kaiser Foundation Health Plan, the Community Health Association, or plans similar in type thereto, the Corporation shall contribute on the basis set forth above, but such contributions for employes in active service or on layoff or disability leave of absence shall not exceed those which would be required if such employes were enrolled in the applicable Blue Cross and Blue Shield or insured local plan. At its option, the Corporation may, from time to time in areas it may designate, waive this limitation in whole or in part.

(6) Optional Dependent Coverages and Coverages Continued for Surviving Spouse of an Employe, or Retired or Former Employe

The Corporation shall not contribute toward the cost of coverages for dependents described in Article III, Sections 1(d), 5 and 7.

(7) For Retired and Certain Former Employes

Commencing with contributions due in the month of October, 1964, except as provided in subsection (6) above, the Corporation shall contribute the full premium or subscription charges for coverages continued in accordance with Article III, Section 6, for:

(i) a retired employe (including any eligible dependents), provided such retired employe is eligible for benefits under Article II of The General Motors Hourly-Rate Employes Pension Plan and

(ii) an employe (including any eligible dependents) terminating at age 65 or older for any reason other than a discharge for cause with insufficient credited service to entitle him to a benefit under Article II of The General Motors Hourly-Rate Employes Pension Plan.

The Corporation shall pay the balance of the net cost of the Program as set forth in Article III over and above any employe contributions specified in Article III. It shall also pay any increase in such costs and shall receive and retain any divisible surplus, credits or refunds or reimbursements under whatever name, arising out of any such Program.

(c) ***Administration***

(1) The Corporation shall be responsible for the administration of the Program.

(2) All administrative expenses incurred by the Corporation to execute the Program set forth in Articles II and III shall be borne by the Corporation.

(d) *Grievance Procedure Not Applicable*

It is understood that the grievance procedure of any Collective Bargaining Agreement between the parties hereto shall not apply to this Program or any insurance contract in connection therewith.

Section 4. Program in States With Disability Benefits Laws

(a) *Not Applicable in States With Laws Providing Such Benefits*

(1) The provisions of this Program pertaining to Sickness and Accident, Hospital, or Medical Expense Benefits shall not be applicable to employes in states having laws which now or hereafter may provide such benefits, under whatever name, for employes who are disabled by non-occupational sickness or accident, or similar disability; and compliance by the Corporation with such laws shall be deemed full compliance with the provisions of the Program with respect to employes in such states. If such benefits exceed the benefits provided under the Program, the Corporation may require from employes in such states such contributions as it may deem appropriate for such excess benefits.

(2) In any state where the benefits under such state laws are on a generally lower level than the corresponding benefits under the Program, the Corporation shall, to the extent it finds it practicable, provide benefits supplementary to the state plan benefits to the extent necessary to make the total benefits as nearly comparable as practicable to the benefits of the plan provided by the Program in states without such laws.

(b) ***Substitution of Applicable Provisions of Program for State Plan***

The provisions of subsection (a) above to the contrary notwithstanding, the Corporation may, in any state wherein the substitution of a private plan is authorized by the law of such state, modify the provisions of Article II or III of the Program to the extent and in the respects necessary to secure the approval of the appropriate state governing body to substitute the plan provided by the Program in lieu of any plan provided by state law, and upon such modification and approval as a qualified plan, the Corporation may make the plan provided by the Program available to its employes in such state or states with such employe contributions as may be appropriate with respect to any benefits under such modified plan which exceed the benefits provided under the Program.

Section 5. Federal Hospital or Medical Expense Benefits

(a) *Not Applicable to Employes or Former Employes Eligible for Such Benefits*

The provisions of the Program pertaining to Hospital or Medical Expense Benefits, or both, shall not be applicable to employes or former employes (including retired employes) who are or may become eligible for hospital or medical expense benefits under any Federal law providing such benefits for the public at large. Compliance by the Corporation with such laws shall be deemed full compliance with the provisions of the Program with respect to employes or former employes eligible for benefits under such laws. If such benefits exceed the benefits provided under the Program and the Corporation's contributions for such benefits exceed contributions otherwise payable for benefits under the Program, the Corporation may require from such employes or former employes such contributions as it may deem appropriate for such excess benefits. If, as a result of such laws, the level of benefits provided for any group of employes or former employes or their dependents is generally lower than the corresponding level of benefits under the Program, the Corporation may, at its option and to the extent it finds it practicable, provide a plan of benefits supplementary to the Federal benefits to the extent necessary to make total benefits as nearly comparable as practicable to the benefits provided under the Program.

(b) *Substitution of Applicable Provisions of Program for Benefits Under Federal Laws*

The provisions of subsection (a) above to the contrary notwithstanding, the Corporation may, if Federal laws permit, substitute a plan of benefits for the benefits provided by the Federal laws referred to in subsection (a) above, and modify the provisions of Article I or III of the Program to the extent and in the respects necessary to secure the approval of such substitution from the appropriate governmental authority and may make such plan available to employes and former employes.

(c) *Reduction of Hospital and Medical Expense Benefits Because of Benefits Under Federal Law*

Hospital or Medical Expense Benefits, or both, provided employes or former employes (including retired employes) under Article III may be reduced by the amount of such benefits provided under any Federal law. In cases where the employe exercises an option under the Federal Social Security Act or similar law to take cash payments in lieu of Hospital or Medical Expense Benefits, the equivalent of such payments will be required as a contribution toward the hospital and medical expense coverages provided in Article III, but not to exceed local plan premiums or subscription charges, and such contributions shall be deducted from the monthly pension benefit payable to the employe under The General Motors Hourly-Rate Employes Pension Plan.

Section 6. Treatment of Existing Coverages on Effective Date

(a) Protection of employes currently covered under Corporation group insurance plans and Blue Cross and Blue Shield or other non-profit hospital and medical expense benefit plans, except its New Jersey Private Plan and California Voluntary Plan, shall be terminated on the effective dates of the provisions of the amended Program as to employes working on such effective dates, and the benefits provided by the Program set forth in Articles II and III shall be in lieu of and substitute for any and all other plans and benefits thereunder providing for insurance or disability benefits or payments to employes or beneficiaries for death, loss of member, sickness and accident, or for hospital, surgical, or medical expenses of any kind or nature, in which the Corporation participates.

(b) All employes currently covered under the Program who are not eligible to become insured on the effective date of the Program, as amended, or to whom any provision of the Program, as amended, is not applicable, shall be covered in accordance with the conditions, provisions, and limitations of the Program as constituted on the date each such employe was last actively at work as if such Program were being continued during the existence of the Program set forth herein.

ARTICLE II

GROUP LIFE, EXTRA ACCIDENT, SICKNESS AND ACCIDENT INSURANCE, AND SURVIVOR INCOME BENEFITS

Section 1. Amount of Insurance

The amount of insurance for employes who first enter the Plan prior to age 65 shall be as set forth in subsections (a) and (b) below for employes in states having no laws providing any such benefits.

(a) Employes First Entering Plan Prior to Age 65

Group Life, Extra Accident and Sickness and Accident Insurance shall be as set forth in the Schedule of Benefits For Employes First Entering the Plan Prior to Age 65:

Art. II, 1(a)

SCHEDULE OF BENEFITS FOR EMPLOYES FIRST ENTERING THE PLAN PRIOR TO AGE 65

(In States with No Cash Sickness Laws)

Base Hourly Rate	BENEFITS						
	Before Age 65			Before Age 60	Before Retirement	Continuing Life Insurance After Age 65	
	Life Insurance	Extra Accident Insurance*	Total Life and Accidental Death Insurance	Monthly Total and Permanent Disability Benefit**	Sickness and Accident Weekly Benefit (Maximum 52 Weeks)	From (Minimum With 10 Years in Plan)	To (Maximum With 20 Years in Plan)
Under $2.65	$ 6000	$3000	$ 9000	$120	$ 60	$1500	$1800
$2.65— 2.89	6500	3250	9750	130	65	1500	1950
2.90— 3.14	7000	3500	10500	140	70	1500	2100
3.15— 3.39	7500	3750	11250	150	80	1500	2250
3.40— 3.64	8000	4000	12000	160	85	1500	2400
3.65— 3.89	8500	4250	12750	170	90	1500	2550
3.90— 4.14	9000	4500	13500	180	95	1500	2700
4.15— 4.39	9500	4750	14250	190	100	1500	2850
4.40— 4.64	10000	5000	15000	200	105	1500	3000
4.65— 4.89	10500	5250	15750	210	110	1575	3150
4.90— 5.14	11000	5500	16500	220	115	1650	3300
5.15 & over	11500	5750	17250	230	120	1725	3450

*Extra Accident Insurance equal to 50% of Continuing Life Insurance remains in force for those employes who continue to work after age 65.

**For 50 months for those employes eligible for such benefits. (See Article II, Section 6.)

(b) *Survivor Income Benefit Insurance*

(1) Amount of Insurance and Effective Date

Effective October 1, 1964, Transition Survivor Income Benefit Insurance in the amount of $100 per month for up to a maximum of 24 months will be provided. Such Transition Survivor Income Benefit Insurance shall be in force only while an employe is insured for Extra Accident Insurance under this Article and only while he has at least one eligible dependent. Such insurance shall also be provided for an employe retired under the total and permanent disability provisions of The General Motors Hourly-Rate Employes Pension Plan, but only until he has attained the age at which he may elect the surviving spouse option thereunder. No other retired employe shall be insured hereunder.

(2) Payment of Transition Survivor Income Benefit

In the event of death of an insured employe from any cause, benefits shall be payable monthly commencing on the first day of the calendar month following the death of the employe, and on the first day of each month thereafter until 24 such payments have been made or until there are no eligible survivors in any Class of eligible survivors, if earlier. In no event will the maximum amount payable on account of the death of any employe exceed $100 per month or $2400 in total. Payments shall be made to the eligible survivor or in equal shares to the eligible survivors in the first of the Classes of survivors set forth in subsection (3) herein in which there is an eligible survivor or survivors.

(3) Classes of Eligible Survivors

The Classes of eligible survivors (also referred to herein as eligible dependents) and the order of qualifying for benefits are as follows:

Class A. The widow of a deceased male employe, but only if she was legally married to the deceased employe for at least one year immediately prior to his death;

Class B. The widower of a deceased female employe, but only if

(i) the widower, at the time each survivor income benefit is payable to him, has dependent on him, for principal support, an unmarried child under 21 years of age, of the deceased employe, or

(ii) the widower was wholly or partially dependent on the employe during the calendar year preceding the employe's death, as evidenced by the fact that the employe's income during such year was 50% or more of the combined income of the employe and her widower during such year;

Class C. Any child of the deceased employe, who at the time a Transition Survivor Income Benefit first becomes payable to him is both unmarried and under 21 years of age, but such child shall cease to be a Class C eligible survivor upon marrying or reaching his 21st birthday;

Class D. A parent of the deceased employe for whom the employe had, during the calendar year preceding the employe's death, provided at least 50% of the parent's support.

(4) Sequence of Payments

Payments shall be made to the eligible survivors as set forth in subsection (3) above in the following order:

(i) Class A or B Eligible Survivors

If a Class A or Class B eligible survivor dies or becomes ineligible prior to the payment of the maximum number of 24 benefit payments, the right to any remaining payments shall pass in equal shares for the balance of the maximum number of payments to any surviving children who then qualify under Class C or, if there are none, then in equal shares for the balance of the maximum number of payments to any surviving parents who then qualify under Class D.

(ii) Class C Eligible Survivors

If, after having qualified under Class C, a child marries, or dies, or attains age 21, any remaining payments shall be divided equally among any surviving children who continue to qualify under Class C. After the last child marries, or dies, or attains age 21, any remaining payments shall be divided equally among any surviving parents who then qualify under Class D.

(iii) Class D Eligible Survivors

If more than one parent qualifies under Class D and either parent dies, any remaining payments shall be payable to the surviving parent.

(iv) No Eligible Survivor

If no eligible survivor of the employe qualifies in any Class on the first of the month following the death of the employe, no payments will be made hereunder. Once begun, payments will cease when there is no eligible survivor in any Class.

(5) Survivor Income Benefits for Class A or Class B Eligible Survivor Age 50 or Over at the Time of Death of Employe

There shall also be payable in accordance with the terms and conditions of this subsection to a Class A or Class B eligible survivor, both terms as defined in subsection (3) above, who was 50 years of age or more on the date of the employe's death and who has received 24 monthly payments of the Transition Survivor Income Benefit provided in subsections (1) and (2) above, an additional survivor income benefit of $100 per month (hereinafter referred to as a Bridge Survivor Income Benefit) as follows:

(i) The Bridge Survivor Income Benefit will become payable commencing with the first month following the month for which the 24th monthly payment of the Transition Survivor Income Benefit is paid, provided, however, that no benefits shall be payable to a Class A eligible survivor for any month for which she is eligible because of the care of a child to receive Mother's Insurance Benefits under the Federal Social Security Act as now in effect or as hereafter amended.

(ii) The Bridge Survivor Income Benefit will cease to be paid immediately upon the occurrence of:

(aa) the death or remarriage of the Class A or Class B eligible survivor or

(bb) attainment by the Class A or Class B eligible survivor of age 62 or such lower age at which full Widow's or Widower's Insurance Benefits or Old Age Survivors' Insurance Benefits become payable under the Federal Social Security Act as now in effect or hereafter amended.

(6) Privilege of Obtaining an Individual Policy of Life Insurance

The employe shall be entitled to have issued to him an individual policy of Life Insurance in accordance with the provisions set forth in Section 9(d) of this Article provided he has at least one eligible dependent under any Class at termination of employment, his Life Insurance is canceled, and he applies within 31 days after the last day of the calendar month in which his survivor income benefit insurance is canceled. The amount of such individual policy issued shall be increased by an amount equal to (or less at the option of the employe) the total amount of monthly survivor income benefit insurance payments that would have been made if the employe had died on the date of termination of employment. If the employe dies during such 31-day period, whether or not the employe shall have made application for such individual policy, the insurance company shall pay any survivor income benefit insurance which would otherwise be payable in accordance with this Section 1(b).

(7) No survivor income benefit payable hereunder shall be subject in any manner to assignment, pledge, attachment or encumbrance of any kind, nor subject to the debts or liability of any eligible survivor except as required by applicable law.

No other Sections of this Article or Appendices related thereto, except as specifically mentioned in this Section 1(b), shall be applicable to this survivor income benefit insurance.

Section 2. Eligibility of Employes and Commencement of Insurance

(a) *Present and New Employes—Date of Eligibility*

An employe hired prior to the effective date of the Plan as amended shall be eligible, and shall automatically become insured on that date, except as provided in subsection (c)(4) of this Section, with respect to coverages provided under this Article. An employe hired on and after the effective date of the Plan as amended shall be eligible on the first day of the month next following the month in which employment with the Corporation commences subsequent to his most recent date of hire.

(b) *Rehired Employes—Date of Eligibility*

If the insurance of an employe is discontinued because of termination of employment and the employe is subsequently rehired, his eligibility for insurance under the Plan shall be subject to the following provisions:

(1) If separation from service was due to reasons other than discharge or voluntary quit and the employe is rehired within a period of 24 consecutive months, he shall be eligible immediately on the date of his return to active work with the Corporation;

(2) If separation from service was due

to a leave of absence or layoff but there was no break in seniority, the employe shall be eligible immediately on the date of his return to active work with the Corporation;

(3) If separation from service was due to a discharge or voluntary quit but the employe is reemployed within 31 days and no individual policy has been issued to the employe in accordance with Section 9(d) of this Article, the employe shall be eligible immediately on the date of his return to active work;

(4) Except as provided by subsections (1), (2) and (3) above, a rehired employe shall be eligible on the first day of the month next following the month in which employment with the Corporation commences subsequent to his most recent date of hire.

(c) ***Effective Date of Insurance***

(1) An employe shall become insured on the date he first becomes eligible if actively at work on that date and provided he has enrolled on or before that date.

(2) An employe who enrolls during the 31 days following his eligibility date shall become insured on the date he enrolls provided he is actively at work.

(3) An employe who requests to enroll or re-enroll more than 31 days after first

becoming eligible must submit evidence of insurability satisfactory to the insurance company before he may become insured. In such cases, the insurance company may require the employe to pass a medical examination before he can become insured but such examination shall be without cost to the employe. Any such employe shall become insured on the date the insurance company approves such evidence of insurability provided he is then actively at work.

(4) If an employe is not actively at work on the date his insurance would otherwise become effective, the employe becomes insured on the date the employe returns to work provided that date is not more than 24 months later, or if later, the employe has not then broken seniority.

Section 3. Life Insurance

(a) *Prior to Age 65*

The amount of Life Insurance to which an employe is entitled prior to age 65 is as shown in Section 1 of this Article.

(b) *After Age 65*

(1) On the first day of the calendar month following the month in which the 65th birthday of the employe occurs, his Life Insurance in force immediately prior thereto shall be reduced by 2% thereof, and shall be

further reduced by an equal amount on the first day of each succeeding month as follows:

(i) If the employe has ten or more Years of Participation at age 65, such reductions shall be made until the Life Insurance is reduced to 1½% of the amount in force on the employe's 65th birthday, times the number of Years of Participation, not in excess of 20, at age 65, but in no event to less than $1500, except as otherwise provided in Section 6(g) of this Article, and such remaining Life Insurance, called Continued Life Insurance, will be continued thereafter until the death of the employe, subject to the rights reserved to the Corporation to modify or discontinue this Plan.

(ii) If the employe has less than ten Years of Participation at age 65, such reduction shall be made until his separation from active service or until the remaining Life Insurance equals $500, whichever occurs first, and any amount remaining in force upon his separation from active service shall then be discontinued.

(2) No employe contributions for Life Insurance are required after attainment of age 65.

(3) For the purposes of this Section, any employe who was in service on May 31, 1950, and who would not have ten Years of Participation in the Plan on the last day of the calendar month in which his 65th birthday occurs, will be given credit for ten Years of Participation in the Plan at age 65 in calculating his Continued Life Insurance, provided the employe then has at least five Years of Participation in the Plan.

Section 4. Extra Accident Insurance

Extra Accident Insurance is provided while the employe is insured for Life Insurance during active service and while Life Insurance is continued during layoff or leave of absence, as specified in Section 9(a) of this Article and during periods of total disability as set forth in Section 9(c) of this Article, but not beyond age 68 in any event.

If death results from injury caused accidentally on or after October 1, 1964, and within one year of such injury, there will be paid to the beneficiary of the insured employe an additional amount equal to 50% of his Life Insurance. Extra Accident Insurance benefits will be paid for certain dismemberments.

Payment of benefits under this Section 4 is governed by the provisions set forth in Appendix A.

Section 5. Payment of Life Insurance and Extra Accident Insurance

(a) The amount of Life Insurance is payable to the beneficiary named by the employe in the event of death from any cause while the employe is insured under the Plan for Life Insurance. In the event of accidental death, the Extra Accident Insurance, if in force, is also payable to the beneficiary named by the employe.

(b) At the written request of the beneficiary, the Life Insurance and Extra Accident Insurance, if any, shall be paid either in a lump sum or in monthly or yearly instalments over not more than 20 years. No instalment settlement election shall be valid if such settlement would result in instalment payments of less than $10.00 each.

(c) If the insurance is payable in instalments and the beneficiary dies before all instalments have been paid, the unpaid instalments shall be commuted at the rate of interest used in computing the amount of instalment payments, and paid in one lump sum to the estate of the beneficiary unless otherwise provided in the election of an instalment settlement.

(d) The employe's insurance certificate shall set forth the administrative provisions regarding the recording of beneficiary designations, changes of beneficiary and the procedure for payment of insurance in case there is no beneficiary living at the death of the employe.

(e) All insurance is term insurance without cash, loan or paid-up values.

Section 6. Total and Permanent Disability Benefits

(a) An employe who becomes totally and permanently disabled before the end of the month in which he attains age 60 and who has ten Years of Participation in the Plan at the end of the month in which he becomes so disabled may have his Life Insurance paid to him in 50 monthly instalments at the rate of $20 for each $1000 of Life Insurance or may at his option continue his insurance without contributions in accordance with Section 9(c)(2) of this Article.

(b) Payments under this Section shall begin the later of

- (1) the first day of the month which includes the date the required proof of such disability is received by the Corporation,
- (2) the first day of the month which includes the date the employe has been continuously and totally disabled for a period of six months, or
- (3) the day following the date of expiration of the maximum number of weeks for which Sickness and Accident Benefits are payable to the em-

ploye under any plan to which the Corporation contributes.

Successive periods of absence due to the same disability as that upon which claim for Total and Permanent Disability Benefits is based and aggregating at least six months shall be considered the same as one continuous absence provided that the aggregate shall not include such absences preceding the last day at work by more than one year.

(c) If the employe should die while the monthly instalments are being paid to the employe, the remaining instalments shall be paid in a lump sum to the employe's beneficiary. The lump sum shall not be less than $500.

(d) No employe contributions under this Article are required while the employe is receiving such Total and Permanent Disability Benefits.

(e) After the total amount of Life Insurance in force at disability has been paid, a $500 death benefit shall be provided during the remainder of the employe's total disability. No employe contributions are required for this coverage.

(f) If the employe recovers and returns to work, the full amount of insurance for his earnings bracket when the employe returns is reinstated. If the employe again collects monthly instalments they shall stop when their total, plus the total of instalments paid for any previous disability, equals the amount of his Life Insurance in force at the subsequent disability.

(g) If the employe recovers but does not return to work, all insurance is canceled but the employe may convert the amount of unpaid instalments (not less than $500) into an individual policy, except that if he is then over age 60, he may continue Life Insurance equal to his unpaid instalments but not less than $500 to age 65 by making the required contributions. Then his insurance is reduced in accordance with Section 3(b) of this Article, except that if the amount of Life Insurance then in force is less than $1500, such lesser amount will be the amount of Continued Life Insurance for such employe.

(h) Any payment under this Section shall be entirely independent of any payment to which the employe may be entitled on account of total and permanent disability under The General Motors Hourly-Rate Employes Pension Plan.

Payment of benefits under this Section 6 is governed by the provisions set forth in Appendix B.

Section 7. Sickness and Accident Benefits

(a) ***Duration and Commencement of Benefits***

Sickness and Accident Benefits shall be payable during continuous total disability for a maximum of 52 weeks for any one period of disability, provided the employe is under the care of a doctor licensed to practice medicine. If disability is due to an accident, benefits start on the first day of such disability. If disability is due to sickness, benefits start on the earlier of the eighth day of disability, the first day of confinement in a legally constituted hospital, or the day following the day the employe undergoes a surgical procedure for which a benefit of $25 or more is scheduled under a medical expense plan pursuant to Article III, Section 1(a) or 1(b).

(b) ***Basis for Daily Benefit Payments***

Daily benefits shall be paid on the basis of a five-day work week, Monday through Friday. If any one of such days is not included in an employe's regular work week, Saturday shall be substituted for that day and if two of such days are not included in the employe's regular work week, Saturday and Sunday shall be substituted for such two days.

(c) ***Benefits for More Than One Absence***

(1) If an employe returns to work after receiving Sickness and Accident Benefits for less than 52 weeks and is again absent within three months for the same reason or some disability related to it, there is no waiting period for the rest of the 52 weeks' period, if the employe is disabled that long.

(2) If the second absence results from a

different kind of sickness or injury, or begins three consecutive months or more after the date on which the employe recovers from disability, and the employe returned to work for at least one day in the intervening period since such recovery, the first absence does not affect any possible future benefits.

(d) ***Pregnancy***

For pregnancy cases, benefits are limited to six weeks.

(e) ***Occupational Disabilities***

(1) Benefits payable for any period shall be reduced by any payments for time lost from work in that period to which the employe is entitled under any Workmen's Compensation Law or Act or any Occupational Disease Law or Act.

(2) No deduction shall be made for any payments under such laws specifically for hospitalization or medical expense, or specific allowances for loss, or 100% loss of use, of member or disfigurements.

Payment of benefits under this Section 7 is governed by the provisions set forth in Appendix C.

Section 8. Insurance for Employes First Participating After Age 65

An employe who first participates in the Plan at or after age 65 shall be eligible only for Life Insurance of $500 and Sickness and Accident Benefits of $60.00 a week for up to 52 weeks. Such employe shall not be eligible for any insurance after separation.

Section 9. Provisions for Employes Not Actively at Work

(a) *Layoff or Leave of Absence Other than for Disability*

Insurance may be continued for the following periods after the month in which the layoff or leave of absence occurs upon payment of any required contributions:

(1) For the first month all insurance will be continued;

(2) For the next 11 months only the Life and Extra Accident Insurance may be continued. For such period employe contributions shall be at the rate of 50¢ per month per $1000 of Life Insurance.

At the end of the above period, except as otherwise provided in this Section, or at any time the employe fails to make the required contributions during such period, the employe's insurance is canceled and the employe is entitled to the conversion privilege as described in subsection (d)(2) of this Section.

(b) *Continuation of Insurance Between Ages 55 and 65*

(1) Between Ages 60 and 65

An insured employe who ceases active work at or after age 60 and was insured from age 60 to the date he ceases active work or who has ceased active work prior to age 60 but is insured at age 60, and who in either case has five or more Years of Participation at the end of the month in which he attains age 60 may continue only his Life and Extra Accident Insurance to age 65 by making the required contributions at the rate of 50¢ per month per $1000 of Life Insurance. However, an employe with ten or more Years of Participation who, while insured for Life Insurance under the Plan becomes totally and permanently disabled on or after September 1, 1964, at or after age 60 but prior to age 65, shall have his Life and Extra Accident Insurance continued without any premium contribution until age 65.

(2) Between Ages 55 and 60

An insured employe who retires or is retired on or after September 1, 1964, at or after age 55 but prior to age 60 under the provisions of Article II, Section 2(b) of The General Motors Hourly-Rate Employes Pension Plan and who was insured from age 55 to the date he retires or was retired may continue only his Life and Extra

Accident Insurance to age 65 by making the required contributions at the rate of 50¢ per month per $1000 of Life Insurance.

(3) Conversion Privilege and Coverage After Age 65

(i) If the employe does not continue his Life Insurance in the manner set forth in (1) or (2) above, he may exercise the conversion privilege described in subsection (d)(2) of this Section. At attainment of age 65, an employe who has continued his Life and Extra Accident Insurance to that date, as set forth herein, shall have his Life Insurance reduced as provided in Section 3(b) of this Article, with years from date of separation to the end of the month in which he attains age 65 credited as Years of Participation, and his Extra Accident Insurance shall be discontinued.

(ii) An employe separated at or after age 55 who is not eligible to continue his Life and Extra Accident Insurance under the provisions of subsections (1) and (2) above shall have all insurance discontinued and the employe shall be entitled to the conversion privilege as described in subsection (d)(2) of this Section; except that if such separation is due to total disability the employe may continue his Insurance as described in subsection (c) of this Section.

(4) Sickness and Accident Insurance

Sickness and Accident Insurance is discontinued at the end of the month following termination of employment.

(c) ***Total Disability***

For any period during which an employe shall be entitled to receive Sickness and Accident Benefits or is totally and continuously disabled while insured for Sickness and Accident Benefits and he remains on an approved disability leave of absence, but not to exceed the period equal to the employe's Years of Participation as of the first day of disability, all his insurance under this Article shall remain in force. If the employe shall continue to be disabled after the expiration of such periods, the following provisions apply:

(1) Employes With Less Than Ten Years of Participation

An employe may continue during his period of continuing total disability only the Life and Extra Accident Insurance which was in force on the last day of the month in which disability commenced for a minimum period of one year from the date of disability, or, if longer, for a period not to exceed his Years of Participation as of the first day of disability, but not after age 65. Contributions for insurance so continued shall be at the rate of 50¢ per month per $1000 of Life Insurance.

(2) Employes With Ten or More Years of Participation

An employe may continue during his period of continuing total disability up to age 65 only the Life and Extra Accident Insurance which was in force on the last day of the month in which disability commenced. Contributions for insurance so continued shall be at the rate of 50¢ per month per $1000 of Life Insurance, except that while he is adjudged totally and permanently disabled no further contributions for Life Insurance will be required.

Life Insurance on and after age 65 shall be determined as set forth in Section 3(b) of this Article. Sickness and Accident Insurance will be canceled upon retirement or upon termination of an approved disability leave of absence, if earlier. Years of Participation in such cases include the period of total and permanent disability during which contributions were not required.

(d) ***All Other Terminations of Employment (Not Including Retirement)***

All insurance is canceled upon termination of employment except as follows:

(1) If employe dies within 31 days fol-

lowing the date of cancellation of Life Insurance, the total amount of Life Insurance in force at termination shall be paid to his beneficiary.

(2) During such 31-day period the employe shall be entitled to convert without medical examination all or any part of the Life Insurance canceled upon termination into any individual policy then customarily issued by the insurance company, except term insurance and without disability or accidental death insurance, at the rate applicable to his then attained age and class of risk provided application is made within 31 days following date of cancellation of such Life Insurance. Such individual insurance policy shall become effective at the end of such 31-day period.

The foregoing shall be governed by the provisions set forth in Appendix D.

Section 10. General Provisions

(a) ***Amount of Insurance Depends on Base Hourly Rate***

(1) Amounts of insurance are determined by the base hourly rate on the date the employe becomes insured under the Plan, except that if the employe was not actively at work on such date, the last previous day worked shall be used instead.

(2) If the employe is working on an in-

centive method of pay, his average earned hourly rate for the four pay periods (or the period of employment, if less) which include and immediately precede the applicable date as set forth in the preceding paragraph is substituted for the base hourly rate specified in the preceding paragraph in determining the amounts of insurance.

(3) Neither base hourly rate nor average earned hourly rate, as used in this Section, shall include overtime or night shift premiums or that part of any Cost-of-Living Allowance that is subject to change.

(4) An employe retired under The General Motors Hourly-Rate Employes Pension Plan, other than on disability retirement, prior to age 65 who returns to work prior to age 65 while still insured, shall have his insurance determined on his base hourly rate on the date he returns to work, but in no event shall the amount of the employe's Life and Extra Accident Insurance be less than the employe had prior to his retirement.

(5) An employe retired under The General Motors Hourly-Rate Employes Pension Plan who is reemployed by the Corporation after age 65, shall have the same Life Insurance as if the employe had not returned to active service. In addition, Extra Accident and Sickness and Accident In-

surance shall be reinstated for this period of active service.

(b) *Amount of Insurance Subsequent to Becoming Insured Under the Plan*

(1) Subsequent to the date an employe becomes insured under the Plan the amount of insurance for which he is insured shall be based on the employe's current base hourly rate, except that if the employe is not actively at work on the date when the amount of his insurance would change, he shall be insured for such changed amount when he returns to work. No change in amount of Life Insurance because of changes in pay rate shall become effective after the employe attains age 65.

(2) Changes in amount of insurance due to transfers from salaried to hourly pay rolls shall become effective on the date of transfer, provided the employe is then actively at work. If the employe is not actively at work on such date, the change will be effective on the date of his return to work.

(3) Irrespective of the foregoing, in the event of death or total disability, if an employe's base hourly rate on the January 1, April 1, July 1, or October 1 immediately preceding his last day

worked (or in the case of an employe working on an incentive method of pay, the employe's average earned hourly rate for the four pay periods in which he worked full weeks (or the period of employment, if less) which include and immediately precede his last day worked) would entitle the employe to larger amounts of insurance than those which were in effect on the date of death or total disability, payment of benefits shall be on the basis of such larger amounts; provided, however, this subsection shall not apply to the Life and Extra Accident Insurance of an employe age 65 or over.

(4) An employe who returns from an occupational disability absence and because of a continuing physical limitation connected with such occupational disability is placed on a job paying a lower base hourly rate than the job he held immediately prior to his disability absence, will have amounts of Life and Sickness and Accident Insurance determined in accordance with the higher base hourly rate of his former job, as determined by the Schedule of Benefits in Section 1 herein, for as long as he receives payments under any applicable Workmen's Compensation Law in reimbursement for the loss in pay occasioned by such physical limitation.

ARTICLE III

HOSPITAL AND MEDICAL EXPENSE BENEFITS

Section 1. Establishment of Hospital and Medical Expense Benefit Plans

(a) *Coverages for Employes in Michigan*

(1) For employes in Michigan, hospital and medical expense coverages shall be the Hospital Expense Benefits provided for semi-private accommodations under the Comprehensive Hospital Care Certificate of Michigan Hospital Service, with Rider D (which extends the maximum benefit period to 365 days) and the Medical Expense Benefits provided under the Employment Group Benefit Certificate (M-75) of Michigan Medical Service (hereinafter referred to as M-75) with Rider M (which extends the maximum period for in-hospital medical care to 365 days), both plans as of September 1, 1964, including those benefits provided by administrative practices and interpretations.

(2) The Corporation shall make arrangements with Michigan Hospital Service, or otherwise, to provide the following effective September 1, 1966:

(i) A maximum benefit period of 45 days for hospital confinement resulting primarily from nervous or mental conditions, renewable after 90 days between discharge and next admission;

(ii) Elimination of the 270-day waiting period for maternity care and routine nursery care of the newborn;

(iii) A maximum benefit period of 730 days for confinement in an "approved facility" for convalescent and long-term illness care (the 730-day maximum benefit period referred to herein is interpreted to include any periods of hospital confinement, as well as any periods of confinement in an "approved facility" with each day of hospital confinement being treated as two days of confinement in an "approved facility"); and

(iv) Out - patient psychotherapeutic services in an approved hospital, Day or Night Care Center or Community Mental Health Care Center. The cost of these services (excluding services in a Night Care Center) is to be included in the $400 maximum referred to in subsection (3)(iv) below.

(3) The Corporation shall make arrangements with Michigan Medical Service, or otherwise, to provide the following

effective September 1, 1966, except as otherwise noted:

(i) Medical services in a hospital for a maximum benefit period of 45 days in the event medical care is rendered primarily for the treatment of nervous or mental conditions, renewable after 90 days between discharge and next admission;

(ii) Elimination of the 270-day waiting period for obstetrical services;

(iii) Benefits for pre-natal and post-natal care;

(iv) Out-patient psychiatric care benefits which include individual or group psychotherapeutic services in a physician's office or "approved facility", with fees based on a deductible arrangement; electroshock therapy and anesthesia for electroshock therapy, neither of which will be a benefit if performed in the physician's office; the maximum liability for all benefits under this subsection and subsection (2)(iv) above combined will be $400 per member per year, including a maximum benefit of $38.25 payable for psychological testing; and

(v) Effective September 1, 1965, elimination of the "member's liability" to pay a physician the greater of $5.00 or 10% of the scheduled fee for Class II Services when rendered on an inpatient basis.

(b) *Coverages for Employes Outside Michigan*

For employes outside Michigan, benefits shall be those provided under a local plan or plans selected by the Corporation providing coverages as nearly equal as practicable with those provided employes in Michigan under the Plans of Michigan Hospital Service and Michigan Medical Service, or otherwise.

(c) *Enrollment Classifications*

At the employe's option such coverage may include protection for (i) self only, (ii) self and spouse, or (iii) self and family. Family coverage shall include only spouse and eligible children.

(d) *Optional Special Dependent Coverages*

Where local plans provide under the employe's contract optional coverages for dependents other than those specified in (c) above, the Corporation may make such options available to the employe and the employe shall pay the full additional cost thereof.

(e) *Replacement or Supplementation of Local Plan Coverages*

(1) If in its judgment the Corporation considers it advisable in the interest of the employes in any locality, another type of local plan or a plan insured by an insurance company or other plan selected by the Corporation may be substituted in such locality or localities for all or part of the coverages referred to in subsections (a) and (b) above.

(2) If, in any locality, the local Blue Cross plan selected by the Corporation fails to provide benefits in reasonable conformity with the benefits provided employes in Michigan, supplementary Hospital Expense Benefits shall be provided through a Blue Cross Association National Account Agreement, Health Service, Inc. or otherwise.

(3) Medical expense benefits provided by an insurance company, a national Blue Shield mechanism, or other plan selected by the Corporation may be provided either to supplement local plan Medical Expense Benefits or to provide a class or classes of Medical Expense Benefits not provided by such local plan.

(4) Either the coverages substituted pursuant to subsection (1) above or the supplemental benefits provided pursuant to subsection (2) or (3) above

in combination with local plan coverages, shall be such as to provide benefits at a level as nearly equal as practicable with those provided Michigan employes.

(f) *Optional Group Medical Practice Plan Coverages*

The Corporation has made arrangements for each employe in California and Oregon plants to be afforded the option to subscribe to either the comprehensive Kaiser Foundation Health Plan or the Blue Cross-Blue Shield plans, and for employes in plants within the Detroit and Pontiac areas to be afforded the option annually to subscribe to either the Community Health Association (CHA) plan or the Blue Cross-Blue Shield plans. Such arrangements will be continued, subject to the continued availability and the enrollment requirements of the Kaiser Plan and CHA. This same option, with the right of the Corporation to substitute a plan similar in type to the Kaiser or CHA plans, can be extended by the Corporation to employes in other areas.

Section 2. Eligibility of Employes and Commencement of Coverage

The conditions of eligibility and effective date of coverages under this Article shall, to the extent practicable and to the extent permitted by the plans under which coverages are provided, be the same as set forth in Article II, Section 2(a) and (b) for coverages under Article II.

Section 3. Continuance of Coverage During Layoff or Leave of Absence

(a) To the extent permitted by the local plans, the coverages provided by this Article shall be continued on a group basis during periods of layoff which commence on or after January 1, 1962 for up to 12 consecutive months following the last month of coverage for which the Corporation contributed for the employe while in active service, provided the employe's seniority is not broken. Contributions for coverages so continued shall be in accordance with Article I, Section 3(b)(2).

(b) To the extent permitted by the local plans, the coverages continued while on layoff pursuant to subsection (a) herein shall be continued for up to 12 additional months beyond the last month for which the Corporation contributed the full cost in accordance with Article I, Section 3(b)(2)(i), provided the employe's seniority is not broken and contributions for coverages continued for additional months are made in accordance with Article I, Section 3(b)(2)(ii).

(c) To the extent permitted by the local plans, the coverages provided by this Article shall be continued on a group basis for the duration of an approved disability leave of absence which commences on or after October 1, 1964, provided the employe is totally and continuously disabled, except that an employe who becomes disabled and would be eligible for total and permanent disability benefits under any

Corporation pension plan or retirement program then in effect but for the fact that he does not have the years of credited service required to be eligible for such benefits, may continue his coverage on a group basis for a period equal to his seniority on his last day worked, upon submission of such periodic proof of the continuance of such disability as the Corporation may reasonably require, subject to the approval of the local plans. Contributions for coverages so continued shall be in accordance with Article I, Section 3(b)(3).

(d) To the extent permitted by the local plans, the coverages provided by this Article shall continue to be made available on a group basis for an employe on an approved leave of absence, other than for disability, for up to 12 consecutive months following the last month of coverage for which the Corporation contributed for the employe while in active service, provided the employe's seniority is not broken and contributions for coverages continued are made in accordance with Article I, Section 3(b)(4).

Section 4. Continuance of Coverage Upon Termination of Employment Other Than by Retirement or Death

Following termination of employment other than by retirement or death, the employe shall be entitled to such direct payment contracts as are provided in such contingency by the plan under which the employe is covered at the time of such termination of employment.

Section 5. Continuance of Coverage for Surviving Spouse of an Employe

The Corporation will make suitable arrangements for the surviving spouse of any employe to participate in the coverage referred to in Section 1 of this Article as a part of the groups covered thereby as long as monthly survivor income benefits provided in Article II, Section 1(b) are payable, or as long as the Bridge Survivor Income Benefit provided in Article II, Section 1(b) is not payable only because the survivor is eligible for Mother's Insurance Benefits under the Federal Social Security Act as now in effect or as hereafter amended, subject to the availability of the coverage. The election of the surviving spouse with respect to such coverages must be made no later than three months following the month of the death of the employe occurring on or after October 1, 1964. The surviving spouse electing this coverage shall contribute monthly the entire group premium or subscription charges for coverage for (i) self only or (ii) self and eligible children. When contributions by surviving spouses of employes are required, they shall pay their contributions to the Corporation in cash on or before the 10th day of the month for which coverage is to be provided or, if suitable arrangements can be made, directly to the carrier on or before the due date.

Section 6. Continuance of Coverage Upon Retirement or Termination After Age 65

(a) Such coverages as an employe has under this Article at the time of retirement or termination of employment at age 65 or older for any reason other than a discharge for cause with insufficient credited service to entitle him to a benefit under Article II of The General Motors Hourly-Rate Employes Pension Plan shall be continued thereafter provided that suitable arrangements for such continuation can be made with the local plans. Contributions for such coverages shall be in accordance with Article I, Section 3(b)(7).

(b) Retired employes whose retirement became effective prior to October 1, 1964 or former employes terminated at age 65 or older for any reason other than a discharge for cause who are not enrolled for coverages or for the maximum coverages to be provided under this Article will be given an opportunity to enroll for such coverages during a period to be established by the Corporation. Such coverages shall become effective on the first of the month following receipt of application from such retired or former employes.

Section 7. Continuance of Coverage for Surviving Spouse of a Retired or Former Employe

(a) The Corporation will make suitable arrangements for

(1) Any surviving spouse receiving a benefit under The General Motors Hourly-Rate Employes Pension Plan under

(i) a survivor benefit option elected by a retired employe under Article II, Section 6(c) of The General Motors Hourly-Rate Employes Pension Plan, or

(ii) Article II, Section 6(d) of The General Motors Hourly-Rate Employes Pension Plan, and

(2) The surviving spouse of:

(i) a retired employe if prior to the retired employe's death he was receiving a benefit under Article II of The General Motors Hourly-Rate Employes Pension Plan, or

(ii) an employe who terminated at age 65 or older for any reason other than a discharge for cause with insufficient credited service to entitle him to a benefit under Article II of The General Motors Hourly-Rate Employes Pension Plan

to participate in the coverage referred to in Section 1 of this Article, as a part of the groups covered, subject to the availability of the coverage. The election of the surviving spouse with respect to such coverages must be made no later than three months following the month of the death of the retired or former employe occurring on or after October 1, 1964. A surviving spouse electing this coverage shall contribute monthly the entire group premium or subscription charges for coverages for (i) self only or (ii) self and eligible children.

(b) Suitable arrangements will be made with the trustee or trustees under The General Motors Hourly-Rate Employes Pension Plan for the deductions of the contribution from the monthly pension payable, if any, to each surviving spouse who elects this coverage, it being understood that other suitable payment arrangements will be made for surviving spouses not receiving pension payments under The General Motors Hourly-Rate Employes Pension Plan, and surviving spouses not receiving pension payments under The General Motors Hourly-Rate Employes Pension Plan sufficient to permit deduction of the required contribution.

(c) When contributions by surviving spouses of retired or former employes are required, they shall pay their contributions to the Corporation in cash on or before the 10th day of the month for which coverage is to be provided or, if suitable arrangements can be made, directly to the carrier on or before the due date.

Section 8. Non-Duplication of Benefits

The Corporation may establish provisions for eliminating the problem of duplicate benefits which may occur with respect to coverages provided under this Article.

ARTICLE IV

DEFINITIONS

1. Employe

(a) Any person regularly employed in the United States by the Corporation or by a wholly-owned or substantially wholly-owned domestic subsidiary thereof, on an hourly-rate basis, including:

(1) hourly-rate persons employed on a full-time basis;

(2) hourly-rate persons on incentive pay plans;

(3) General Motors Institute students and students from other educational institutions who are enrolled in co-operative training courses on hourly rate;

(4) part time hourly-rate employes who, on a regular and continuing basis, perform jobs having definitely established working hours, but the complete performance of which requires fewer hours of work than the regular work week, provided the services of such employes are normally available for at least half of the employing unit's regular work week.

(b) The term "employe" shall not include employes represented by a labor organization which has not signed an agreement making the Program applicable to such employes.

2. Years of Participation

(a) For service prior to September 1, 1950, Years of Participation shall equal the length of service from the continuous plant service date to September 1, 1950, plus additional recognized length of service, if any, as a salaried employe at continuous plant service date. If the employe is represented under a Collective Bargaining Agreement, length of service from continuous plant service date to September 1, 1950 shall be the employe's seniority as defined in such Agreement, at September 1, 1950. Any service prior to December 1, 1926 shall be excluded.

(b) For service subsequent to September 1, 1950, Years of Participation shall be the total duration of all periods after September 1, 1950 during which the employe is insured for Life Insurance whether or not the employe's service is continuous for such periods, plus any time spent by the employe on military leave, plus any period during which the employe received Total and Permanent Disability Benefits as described in Article II, Section 6. After September 1, 1950, any employe who is not insured for Life Insurance under Article II for the whole of a period in excess of 24 consecutive months shall lose Years of Participation for any period prior to a subsequent resumption of coverage, except that there shall be no loss of

Years of Participation while the employe's seniority remains unbroken.

(c) Notwithstanding the definition of Years of Participation in subsections (a) and (b) above, any employe under age 65 eligible to participate in the Program prior to October 1, 1964, who becomes insured for the first time under Article II on October 1, 1964, shall be entitled to have his coverage continued under Article II for the same period while he is totally and continuously disabled while on an approved disability leave of absence as he is entitled to have his coverage continued under Article III. The Corporation shall pay the full cost for such coverage during the continuance of his approved disability leave while he is totally and continuously disabled.

3. Insurance Company

The words "insurance company" where used in Article II, Section 2(c)(3) shall include the Corporation or its designated administrative body for any plan or coverage which is self-insured.

4. Seniority

Seniority as used in this Program is whichever of the following periods is applicable to the employe:

(a) If the employe is represented under a Collective Bargaining Agreement, his seniority for the purposes of this Program shall be the same as his seniority as defined in such Agreement.

(b) In the case of each non-represented employe, his seniority for the purposes of this Program shall be his unbroken service as defined by rules established by the Corporation.

5. Plan

Plan means that portion of the Program referred to in Articles II and III respectively.

6. Eligible Children

For the purposes of Article III, Section 1(c), effective on and after September 1, 1966, the term "eligible children" shall include children under 25 years of age, or at any age if totally and permanently disabled, who are unmarried, legally residing with and dependent on the employe for more than half of their support as defined by the Internal Revenue Code of the United States and must either qualify in the current year for dependency tax status or have been reported as a dependent on the employe's most recent income tax return.

APPENDIX A

PROVISIONS GOVERNING PAYMENT OF EXTRA ACCIDENT INSURANCE (Referring to Article II, Section 4)

1. *Benefit Provisions*

If an employe while insured for Extra Accident Insurance sustains bodily injuries caused solely through violent, external and accidental means which result in death or loss of hand, foot or sight of eye, benefits will be paid as specified in the schedule below:

Loss	**Amount Payable**
Loss of one hand by severance at or above wrist joint or one foot by severance at or above ankle joint or total and irrecoverable loss of sight of one eye.	One-half the amount of Extra Accident Insurance then in force (Article II, Section 1(a)).
Loss of two or more such members, or Loss of life.	The full amount of Extra Accident Insurance then in force (Article II, Section 1(a)).

For any one accident the maximum amount of this insurance that will be paid shall not exceed the amount of Extra Accident Insurance in force for the employe at the date of the accident (Article II, Section 4).

With respect to accidents occurring on or after October 1, 1964, such benefits are paid provided the death or loss takes place within one year after the injury and is not caused wholly or partly, directly or indirectly by,

(a) disease or bodily or mental infirmity, or by medical or surgical treatment or diagnosis thereof, or

(b) ptomaine or by bacterial infection, except only septic infection of and through a visible wound sustained solely through violent, external and accidental means, or

(c) hernia, no matter how or when sustained, or

(d) war or any act of war, or

(e) intentional self-destruction or intentionally self-inflicted injury, while sane or insane.

Benefits for loss of life are payable to the beneficiary of record of the employe if surviving the employe, and otherwise to the estate of the employe. The benefits for loss of life, will, in the absence of an election by the beneficiary of any other method of settlement, be payable with, and on the same basis as, the Life Insurance of the employe. All other benefits provided under this insurance are payable to the employe.

2. *Notice and Proof of Loss*

(a) Written notice of loss must be given to the insurer within 20 days after the date of such loss. Proof of such loss must be furnished within 90 days after the date of such loss.

(b) The insurer shall have the right and opportunity to examine the employe as often as it may reasonably require during the pendency of claim under the Plan, and also the right to have an autopsy made in case of death, where it is not forbidden by law.

(c) No action shall be brought to recover on the Plan prior to the expiration of 60 days after proof of claim has been filed, nor shall such action be brought at all unless brought within two years from the expiration of the time within which proof of claim is required.

APPENDIX B

PROVISIONS GOVERNING PAYMENT OF TOTAL AND PERMANENT DISABILITY BENEFIT

(Referring to Article II, Section 6)

1. *Benefit Provisions*

(a) If an employe becomes totally and permanently disabled, while insured under the Plan and prior to the end of the month in which his 60th birthday occurs, as a result of bodily injury or disease so as to be permanently and wholly prevented thereby from engaging in any occupation or employment for wage or profit, and if he has credit for at least ten Years of Participation under the Plan on the last day of the month in which he becomes so disabled and provided that satisfactory written proof of such disability is submitted, as required herein, and provided the employe so elects, the insurer shall discontinue the Life and Extra Accident Insurance on the life of said employe and will commence to pay to the employe, in lieu of the payment of Life Insurance at his death, monthly instalments at the rate of $20 per month for each $1000 of the employe's Life Insurance under the Plan at the date of commencement of such disability and continue to make such payments during the period of such disability until the aggregate of the instalments paid during such period of total and permanent disability and the amount of the instalments paid during any previous period or periods of total and permanent disability equals the amount of the employe's Life Insurance in force under the Plan at the date of commencement of such disability.

The first such instalment shall be payable on the later of (i) the first day of the month which includes the date the required proof of such disability is received by the Corporation, (ii) the first day of the month which includes the date the employe has been continuously and totally disabled for a period of six months, or (iii) the day following the date of expiration of the maximum number of weeks for which Sickness and Accident Benefits are payable to the employe under any Plan to which the Corporation contributes. Successive periods of absence due to the same disability as that upon which claim for Total and Permanent Disability Benefits is based and aggregating at least six months shall be considered the same as one continuous absence provided that the aggregate shall not include such absences preceding the last day at work by more than one year.

(b) If the employe dies during the period of total and permanent disability, an amount equal to the greater of (i) the aggregate of the instalments remaining unpaid, or (ii) $500 increased in either case by any amount provided in accordance with subsection 6 of this Appendix shall be paid as a death benefit to the beneficiary of record of the employe.

2. *Cessation of Disability*

If the employe ceases to be disabled or fails to submit any required proof, the monthly instalments shall automatically and immediately cease.

(a) If the employe returns to work with the Corporation, the Life Insurance shall be reinstated for an amount determined in accordance with the Schedule of Insurance applicable to him on his return to active work and on the basis of his base hourly rate at that time in accordance with Article II, Section 10.

(b) If the employe does not return to work all insurance is canceled but he may convert the amount of death benefit then in force on his account (but not less than $500) into an individual policy in accordance with Article II, Section 9(d)(2). However, if the employe has reached his 60th birthday but not his 65th birthday at the date of such cessation of the payment of instalments, the Life Insurance may be revived in an amount equal to the death benefit then in force on his account by making the required contributions.

Upon attaining age 65, the employe's Life Insurance shall be reduced in accordance with Article II, Section 3(b).

3. If such disability is due to or accompanied by mental incapacity, the whole or any part of such instalments may, at the option of the insurance company be paid to the beneficiary of record of the employe or to any other person or institution then in the judgment of the insurance company contributing toward or providing for the care or maintenance of the employe.

4. Notwithstanding that proof of total and permanent disability may have been accepted by the insurance company as satisfactory, the employe on request from the insurance company shall furnish due proof of the continuance of such disability, and shall submit to physical examination at reasonable intervals by physicians designated by the insurance company.

5. If an individual policy of Life Insurance has been issued in accordance with the provisions described in Article II, Section 9(d)(2), payment may be made under the provisions described in this Appendix only if such individual policy is surrendered without claim thereunder. In such case, any premiums paid on such individual policy shall be refunded.

6. If an employe shall have been paid monthly instalments on account of total and permanent disability and again becomes eligible for benefits because of a second or subsequent period of total and permanent disability, an additional death benefit equal to the aggregate of the instalments paid during the previous period or periods of total and permanent disability shall be provided for him. The amount of this aggregate death benefit in accordance with Sections 1(b) and 6 of this Appendix shall not exceed the amount of the employe's Life Insurance in force on the last day of active work preceding such disability. Such aggregate death benefit shall be subject to reduction at age 65 in accordance with Article II, Section 3(b).

APPENDIX C

PROVISIONS GOVERNING PAYMENT OF SICKNESS AND ACCIDENT BENEFITS

(Referring to Article II, Section 7)

1. *Benefit Provisions*

(a) If while insured for these benefits, an employe becomes wholly and continuously disabled as a result of any injury or sickness so as to be prevented thereby from performing any and every duty of his occupation, and during the period of such disability is under treatment therefor by a physician legally licensed to practice medicine, the amount of weekly benefits for which the employe is then insured shall be paid to the employe each week during the period he is so disabled and under such treatment, provided, however, that in no case shall such benefits be payable for the waiting period specified below, and in no case shall such benefits be payable for more than 52 weeks, for any one continuous period of disability whether from one or more causes, or for successive periods of disability due to the same or related cause or causes.

(b) There shall be no waiting period in the case of disability due to injury, and in the case of disability due to sickness the waiting period shall be the first seven days of disability except that if the employe becomes confined as a registered bed patient in a legally constituted hospital the waiting period shall not extend beyond the day immediately preceding the day the employe becomes so confined and if the employe undergoes a surgical procedure for which a benefit of $25 or more is scheduled under a medical expense plan pursuant to Article III, Section 1(a) or 1(b), the waiting period shall not extend beyond the day of surgery. If there are three months or more between two periods of disability, and the employe returned to work for at least one day in the intervening period, the second period of disability shall not be considered as being due to the same or related cause or causes as the first disability.

2. *Pregnancy*

For disability caused by any one pregnancy or resulting childbirth or complications, not more than six weeks' benefit shall be paid.

3. *Occupational Disabilities*

(a) In the event of a disability arising out of, or in the course of any employment for wage or profit for which the employe is entitled to any benefits for time lost from work under any Workmen's Compensation Law or Act or any Occupational Disease Law or Act, the amount of any weekly benefit payable under the Plan on account of such disability shall be reduced by the amount of such benefits.

(b) No deduction shall be made for any payments under such laws specifically for hospitalization or medical expense, or specific allowances for loss, or 100% loss of use, of member or disfigurements.

4. *Notice and Proof of Claim*

(a) Written notice of injury or sickness must be given to the insurance company within 20 days after the date of the accident causing such injury or the commencement of disability resulting from such sickness. Proof of such injury or sickness must be furnished to the insurance company within 90 days after the termination of the period for which weekly benefits are payable under the Plan.

(b) The insurance company shall have the right to have such medical examinations of the person of the employe, as it may reasonably require, made by a physician or physicians designated by it while weekly benefits are being claimed under the Plan.

(c) No legal action shall be brought by any employe to recover from the insurance company prior to the expiration of 60 days after proof of claim has been filed in accordance with the requirements of the Plan, nor shall such action be brought at all unless brought within two years from the expiration of the time within which proof of claim is required by the Plan.

5. *Payment of Claim*

(a) Subject to due proof of claim, the weekly benefits will be paid to the employe each week during any period of disability for which such benefits are payable and any balance remaining unpaid at the termination of such period will be paid immediately upon receipt of proof.

(b) Any such benefits due for periods other than a whole week shall be paid on the basis of one-fifth of the weekly benefit for each Monday, Tuesday, Wednesday, Thursday or Friday the employe is disabled; if any one of such days is not included in the employe's regular work week, Saturday shall be substituted for that day and, if two such days are not included in the employe's regular work week, Saturday and Sunday shall be substituted for such two days.

(c) If disability is due to or accompanied by mental incapacity, all or any part of such weekly benefits may, at the option of the insurance company, be paid to the beneficiary of record of the employe or to any other person or institution then in the judgment of the insurance company contributing toward or providing for the care or maintenance of the employe.

(d) If the Corporation makes weekly advances to an employe on account of a claim for weekly benefits under the Program and subsequently it is determined that no such benefits are payable or a smaller amount is payable than was anticipated, the employe shall be obligated to repay in cash the amount of such advances or overpayment, as the case may be, upon notice of the amount to be repaid, and, if such repayment is not made within 60 days after request is made by the Corporation for repayment thereof, the amount may be deducted by the Corporation from any wages thereafter payable to the employe.

APPENDIX D

PROVISIONS GOVERNING CESSATION OF INSURANCE AND CONVERSION PRIVILEGE

(Referring to Article II, Section 9)

1. *Cessation of Insurance*

(a) Except as otherwise provided in Article II, Section 9(a), (b) and (c), Life and Extra Accident Insurance shall automatically cease on the last day of the calendar month in which termination of employment occurs. For the purposes of such Insurance, termination of employment means cessation of active work as an employe as defined in Article IV, Section 1.

(b) Except as otherwise provided in Article II, Section 9(a), (b) and (c), Sickness and Accident Insurance shall automatically cease on the last day of the calendar month in which termination of employment occurs, except that such insurance shall continue during any period for which the employe is entitled to receive Sickness and Accident Benefits. For the purposes of Sickness and Accident Insurance, termination of employment means cessation of active work as an employe as defined in Article IV, Section 1.

(c) The Sickness and Accident Insurance shall automatically cease on the later of the date of (i) the expiration of the maximum number of weeks for which weekly benefits are payable under this coverage on account of the employe's disability, and (ii) the earlier of the expiration of the employe's approved disability leave of absence, or retirement. It may be reinstated only if and when the employe returns to active work for the Corporation.

(d) If the employe fails to make the required contributions for coverages under the Plan, such coverages shall automatically cease on the date of the expiration of the last period for which such contribution was made by the employe or the Corporation.

(e) All insurance shall automatically cease upon the discontinuance of the Plan, or, if the provisions thereunder for any one of the forms of coverage in Article II are discontinued, that form of coverage shall be discontinued.

2. *Privilege of Obtaining an Individual Policy of Life Insurance*

(a) Upon written application made to the insurance company within 31 days after either

(i) last day of the calendar month in which termination of employment occurs, or

(ii) the date of the cessation of the payment of instalments pursuant to Article II, Section 6(g) provided the employe does not return to active work and provided the employe's Life Insurance is not reinstated under the Plan,

the employe shall be entitled to have issued to him by the insurance company, without evidence of insurability, an individual policy of Life Insurance only, without Disability or Extra Accident Insurance. Such individual policy shall be upon one of the forms then customarily issued by the insurance company, except term insurance, and the premium for such individual policy shall be the premium applicable to the class of risk to which the employe belongs and to the form and amount of the individual policy at the employe's attained age at the date of issue of such individual policy. The amount of such individual policy shall be equal to (or at the option of the employe less than) the amount of the employe's Life Insurance or death benefit under the Plan on whichever of the dates specified in items (i) and (ii) above is applicable. For an employe who is insured for survivor income benefit insurance on the date of cancellation of his Life Insurance, the amount of such individual policy may at the option of the employe be increased by an amount not to exceed the total amount of monthly survivor income benefit payments that would have been made if the employe had died on the date of termination of employment.

(b) Any individual policy of Life Insurance so issued shall become effective at the end of the 31-day period during which application for such individual policy may be made. If, however, the employe dies during such 31-day period, the insurance company shall pay to his beneficiary of record, whether or not the employe shall have made application for such individual policy the maximum amount of Life Insurance for which an individual policy could have been issued.

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MISCELLANEOUS INSURANCE PROGRAM DOCUMENTS

INSURANCE ITEMS AGREED TO SEPTEMBER 25, 1964

1. There shall be appointed at each plant covered by the terms of the National Agreement between the parties dated October 5, 1964, a local union insurance representative. Such representative shall be appointed by the GM Department of the International Union.

2. Each such representative shall have an alternate. In the event the local union insurance representative is absent, his alternate may attend meetings and when in attendance shall exercise the duties of such representative.

3. The individual appointed by the Union as the local union insurance representative or alternate shall be an employe of the Corporation, having at least one year of seniority, and working at the plant where, and at the time when, he is to serve as such representative.

4. The International Union at any time may remove the local union insurance representative appointed by it and may appoint a representative or alternate to fill any vacancy.

5. The names of the local union insurance representative and alternate member shall be given in writing by the GM Department of the International Union to the Personnel Staff of the Corporation. No such representative or such alternate shall function as such until such written notice has been given.

6. The local union insurance representative shall, after reporting to his foreman, be granted permission to leave his work during working

hours to attend meetings with the local management representative without loss of pay, with the understanding that the time will be devoted to the prompt handling of insurance matters properly appealed under the procedure.

7. Meetings of the local union representative and the local management representative with respect to matters covered by the Informal Procedure for Review of Denied Claims shall be arranged by mutual agreement.

INFORMAL PROCEDURE FOR REVIEW OF DENIED CLAIMS

To afford employes a means by which they can seek review and possible reconsideration of a denied claim, internal procedures of General Motors Corporation will provide a procedure somewhat along the following lines:

A. With respect to claims denied by the Metropolitan Life Insurance Company

Step 1. Following receipt of the formal notification letter from Metropolitan by which the employe (or beneficiary, following the death of the employe) is advised of the reasons for the denial of his claim, the employe or beneficiary may request the representative which his local union has designated to discuss insurance matters to review the reasons for the denial with the local management representative.

Step 2. The local management representative will review the employe's case with the local union representative. If needed, more details with respect to the reasons for the denial will be obtained from the Metropolitan by the local management representative and, if appropriate, he will advise what, if anything, the employe or beneficiary can do to support the claim for payment of benefits. At this meeting, there will be furnished to the local union representative copies of all of the material pertinent to the claim which Metropolitan has made available for examination, including Metropolitan's denial letter setting forth the reasons for the denial of the claim.

Step 3. If, after discussion with the local management representative, the local union representative contests the position of Metropolitan as reflected by the local management representative he may refer the case to the International Union for review with the Corporation. At such time he shall notify the local management representative in writing of his intention to do so.

Step 4. The Corporation and the International Union will review the case, as at present, and if they are unable to resolve their differences the Corporation upon written request of the International Union, will request a review by Metropolitan. Such request to the Metropolitan will be in writing and will incorporate the Union's position. The Metropolitan review of the claim will be conducted by a committee of three employes of Metropolitan, at least one of whom shall be an officer of Metropolitan.

Step 5. Metropolitan will report to the International Union and to the Corporation its action as the result of such review.

Information regarding any undue delay in the issuance of a Sickness and Accident Benefit check or, in the release of a determination by Metropolitan with respect to a suspended claim, may be requested by the local union representative in the same manner as set forth in Steps 1 and 2 of the procedure outlined herein. In such instances, the local management representative shall expedite either the benefit check or the Metropolitan determination.

B. With respect to Hospital, Surgical and Medical Expense claims denied by a Local Plan

Step 1. Following receipt of a letter from a Local Plan with regard to denial of a claim, an employe may request the local union representative to review the reasons for the denial with the local management representative.

The local management representative will endeavor to obtain additional information and a reconsideration of the denial. If the Local Plan does not agree to pay the claim, the local management representative, if appropriate, will advise what, if anything, the employe can do to support his claim for payment of benefits.

Step 2. If, after discussion with the local management representative, the local union representative contests the position of the Local Plan as explained by the local management representative, he may refer the case to the International Union for review with the Corporation. At such time he shall notify the local management representative in writing of his intention to do so.

Step 3. The Corporation and the International Union will review the case as at present. The Corporation may discuss the claim further with the Local Plan.

Step 4. The Corporation will advise the International Union of a decision to pay benefits if a reversal of the previous denial is obtained, or of the pertinent reasons given by the Local Plan for such denial and the Corporation's position with respect to the case.

Assurances to the Union as Follows:

(a) No examinations by Metropolitan medical examiners prior to the time an employe files a sickness and accident claim.

(b) A General Motors plant medical director will not have any direct contact with an employe in connection with the denial or approval of sickness and accident benefits. He will not contact the employe's attending physician or the Metropolitan examiner regarding the sickness and accident claim. The plant medical director's professional opinion based on a review of the claim file and his own records would be available to claims administrators when sought.

(c) The report of an examination by the Metropolitan medical examiner will not be available to management for any purpose but the evaluation of an individual's total disability in connection with his sickness and accident claim.

(d) A claimant shall not be required to travel any great distance to be examined by a Metropolitan medical examiner.

(e) Metropolitan examiners will be carefully instructed by Metropolitan with respect to the handling of examinations in connection with GM employes' sickness and accident claims.

Misc. (S&A Claims Admin.)

OUTLINE OF CLAIMS ADMINISTRATION PROCEDURES WITH REGARD TO SICKNESS AND ACCIDENT INSURANCE UNDER THE GENERAL MOTORS INSURANCE PROGRAM

1. Benefit payments are an obligation of the Metropolitan Life Insurance Company. While General Motors performs important administrative functions in connection with the handling of claims, including the issuance of benefit checks, these functions are performed in accordance with procedures established by Metropolitan and final decision on claims is the sole responsibility of the Metropolitan. General Motors is authorized to make benefit payments on claims without prior consultation with Metropolitan when in the judgment of General Motors personnel engaged in claims work the claim is approvable based on criteria furnished by Metropolitan. Any case which does not appear approvable must be referred to the Metropolitan for final decision and employe is notified of such action. Action on declined claims is usually taken at Metropolitan's Home Office in New York but may be taken by specially authorized Metropolitan personnel in certain localities who work under the direct supervision of the Home Office Claim Division.

2. In general, action on claims involves the following major functions:

   (i) Ascertainment of whether the employe is insured or was insured when disability commenced.

(ii) Ascertainment of whether a state of continuous total disability exists as is a requisite condition for entitlement to benefits under the policy. This is a key function in claims administration and may involve some or all of the following steps:

(a) Consideration of the report of the employe's attending physician.

(b) Consideration of information obtained by independent investigation made on behalf of Metropolitan either by persons employed by Metropolitan or by persons acting for Metropolitan.

(c) Consideration of reports of a medical examiner acting on behalf of Metropolitan. When there is a conflict between the information or evaluation obtained on such report and the report of the attending physician, one or more additional reports may be obtained from other medical examiners acting on behalf of Metropolitan. A specialist might be obtained if the services of such person seemed to be needed to clarify the true condition of disability. In general, the objective is to develop as much information as is reasonably necessary to make a fair determination of the condition of the employe's health and to form a sound judgment as to whether a state of disability exists entitling the employe to benefits.

A very large proportion of cases are clean cut and involve no problem whatever as to the establishment of disability entitling to benefits, e.g. periods of disability involving hospital confinement. Even when hospital confinement does not exist there are many cases where the nature of the disease or the results of an accident are very clear and there is no doubt that the employe is totally disabled and entitled to benefits.

There are two broad types of cases which are not clean cut and which require careful analysis. These are cases where:

(1) There has been a definitely established period of total disability but recovery has progressed and it is necessary to determine when the period of total disability ceases.

(2) The symptoms are vague and ill-defined and subjective and there is doubt as to whether total disability exists which would entitle the employe to benefits.

(iii) Ascertainment of whether eligibility for benefits is affected by provisions relating to limitations on maximum duration, recurrent disabilities, occupational accidents, pregnancy, etc.

(iv) Ascertainment of the amount of benefits the employe is entitled to if claim is approved.

(v) Steps related to authorization of check and payment of benefits.

(vi) Processing of claims records and reports.

3. Specific steps followed in administering claims.

Employe obtains in person or by mail the necessary claim form from the appropriate office of Plant in which he works. In some instances, the employe is visited in his home by a Corporation nurse or other Corporation representative from the Plant in which he works, who may supply him with the claim form and furnish information as to its completion.

Upon completion of the claim form by the employe and his attending physician, it should be returned to the appropriate office in the Plant where it is reviewed by management personnel responsible for claims work.

Then:

(a) In uncomplicated cases

If the information furnished by the attending physician is such to satisfy the Plant Claims Administrator that disability exists entitling the employe to benefits for the period for which claim is made, claim is approved without any further steps and a check is issued and mailed to the employe. Of more than 85,000 claims processed in 1960, it is estimated close to 80,000 were of this kind. It should be noted that such claims may involve a series of transactions in cases where disability extends over a period of weeks, and where the case will be reviewed at periodic intervals and where more than one check or benefit payment will be made.

(b) In cases involving minor complications

There are several important varieties in this category:

(i) Cases where the employe is clearly under treatment by a physician but where the nature of the cause of disability is such as to cause doubt as to whether the degree of disability is total and entitling the employe to benefits; e.g. the cause of disability as given by the attending physician is "Headaches", "Nervousness", "Lameness", "Back Pains", or "Weak Spells", etc.

(ii) The report of the attending physician is either incomplete, vague, or contradictory in parts, or where the prognosis as to when the employe may return to work seems unreasonably long in the light of the cause of disability.

(iii) There is a conflict between information supplied by the employe and/or by the attending physician and information available to the Plant Claims Administrator.

If a delay is anticipated in reaching a decision regarding payment of benefit, the employe is informed in writing that his claim has been received and is being considered.

In most such cases, arrangements are made to have the claimant examined by a physician employed by the Metropolitan. These arrangements are made by the General Motors Plant Claims Administrator. He is free to use his judgment in selecting any one of the available physicians with whom Metropolitan has agreements to make such examinations. He is instructed to use good judgment and care in the selection of the physician to make such examinations, using for example an Osteopath if the attending physician is an Osteopath, and selecting an examiner convenient to the employe's home. When notifying the employe of his appointment with the medical examiner, the plant informs the employe by letter that payments of benefits, or additional benefits after the date of such examination, is subject to confirming evidence of total disability satisfactory to the insurance company. In lieu of such medical examination, the Plant Claims Administrator may choose by reason of the nature of his doubts on the case, to use the services of an independent investigator working under agreement with Metropolitan. Or he may obtain both an investigator's report and a medical examiner's report.

If, on the basis of the information submitted, the General Motors Claims Administrator is satisfied that either disability entitling the employe to benefits exists, or that there is not sufficient evidence to warrant referral to Metropolitan for possible denial of the claim, the claim for benefits will be authorized and paid forthwith.

In carrying out the steps indicated above, the Plant Claims Administrator may, and in many cases does, call upon the Plant Medical Director for advice.

(c) In cases involving difficult complications

These are cases which are similar to those referred to in (b) above in most respects but where the steps taken in (b) reveal further cause of doubts due to differences in the reports of the attending physician and the report of the Metropolitan Medical Examiner. The differences may be such as to suggest either that disability entitling to benefits does not exist, or that there may be differences of views as to the duration of total disability. If there is a doubt as to the existence of total disability with respect to a particular period, steps will be taken to have a second medical examination made by another Metropolitan examiner. In most of these difficult cases, two such examinations will usually provide a basis for a sound decision. A further examination is made only if the claim decision is questioned and Metropolitan requests a further medical review. The Metropolitan examiners' reports are used only with respect to whether the employe is or continues to be totally disabled. Whether the employe can return to a job in the plant must be determined by the Plant Medical Director.

In cases where there is doubt as to the time of recovery from a previously established disability, examinations may be made by the same Metropolitan examiner on more than one occasion. The timing of such examinations depends on the nature of the case and the evaluation of the medical examiner. Generally speaking, a second examination would not be made within a week of a prior examination and usually not sooner than two weeks. On the other hand a second examination within a week may be obtained in circumstances such as the following: (1) report of Metropolitan examiner made on a Thursday indicates employe will be able to return to work on Monday; (2) claim filed by employe indicates claim for benefits may be made for a period on and after Monday; (3) employe does not return to work Monday. In order to ascertain whether or not the employe is still disabled on Monday a further examination may be made at such time.

Where the case is particularly difficult because of the subjective character of the alleged disability, arrangements might be made to engage the services of a specialist to make an examination. Such examinations are on the same basis as those previously indicated and differ only in that extra efforts are made to get more extensive information to resolve the doubts that exist.

(d) Extended periods of disability

Some claims involve serious conditions for which disability extends over a period of weeks. When claim is first submitted, the report of the attending physician indicates the probable duration. For example, the initial prognosis may indicate six weeks of disability. In cases of this kind, usually at the end of four weeks, a request would be made to the employe to submit a supplementary medical report from his attending physician to get an up-to-date prognosis, although such supplementary report would not be obtained if it were *known* that the employe was confined in a hospital or was still totally disabled even though at home. In the case of protracted disabilities, further supplementary reports would be obtained from time to time, usually at four-week intervals. In circumstances where the prognosis indicated that total disability might cease within a shorter period or if the employe claimed that total disability continued beyond the date indicated by the attending physician, a supplementary report from the attending physician may be obtained within a shorter period than indicated above. In cases of this kind, decision on the claim may be made solely on the report or reports of the attending physician or other information might be developed as previously explained.

Misc. (Revised Plan ltr.)

GENERAL MOTORS CORPORATION
INTER-ORGANIZATION LETTERS ONLY

DATE October 5, 1964

SUBJECT --
Years of Participation
GM Group Insurance Plan

TO --
General Managers
Personnel Directors

At the time the Modified Group Insurance Plan for hourly-rate employes became effective in 1948 provision was made to grant credit for "Years of Participation" for periods prior to the employe's seniority date during which he made insurance contributions.

Questions have arisen regarding the 1948 interpretation. Hence, to clarify this question, the policy established in 1948 and again made applicable in 1950 is restated as follows:

> Any employe who had contributed under Group Policy 3200-G or 14000-G for life insurance coverage prior to September 1, 1950 and prior to his seniority date shall be given credit for "Years of Participation" for such periods of contribution except that no such period of contribution shall be counted if prior to a period of six months or longer during which the employe did not contribute under either Policy 3200-G or 14000-G.

The purpose of the foregoing restatement is solely to assure proper treatment of an employe who has any question regarding his rights in such situations.

/s/ LOUIS G. SEATON
Louis G. Seaton
Vice President

Misc. (Emp. on Dis. L/A ltr.)

GENERAL MOTORS CORPORATION

October 5, 1964

International Union, United
Automobile, Aerospace and
Agricultural Implement
Workers of America, UAW
8000 East Jefferson Avenue
Detroit, Michigan 48214

Attention: Mr. Leonard Woodcock

Dear Sirs:

As we discussed during negotiations, it is agreed that an employe who on October 1, 1964 is on an approved leave of absence because he became totally disabled while actively at work will, if he qualifies for a total and permanent disability pension under the revised definition of total and permanent disability added to Article II, Section 4(b) of The General Motors Hourly-Rate Employes Pension Plan during these negotiations, be insured for group Life and Extra Accident insurance under Article II, Section 1(a) of the General Motors Insurance Program for Hourly-Rate Employes by contributing at the rate of 50 cents per month per $1000 and for group hospital-surgical and medical coverage under Article III, Section 1 of the aforementioned Insurance Program, although he does not return to active work after October 1, 1964.

Very truly yours,

/s/ LOUIS G. SEATON
Louis G. Seaton
Vice President

Accepted and Approved:

INTERNATIONAL UNION, UNITED
AUTOMOBILE, AEROSPACE AND
AGRICULTURAL IMPLEMENT
WORKERS OF AMERICA, UAW

By /s/ LEONARD WOODCOCK

Misc. (Committee re Hosp. & Med. Exp. Bfts. ltr.)

GENERAL MOTORS CORPORATION

October 5, 1964

International Union, United
Automobile, Aerospace and
Agricultural Implement
Workers of America, UAW
8000 East Jefferson Avenue
Detroit, Michigan 48214

Attention: Mr. Leonard Woodcock

Dear Sirs:

The Committee established under Section 4(d) of Exhibit B, 1964 Supplemental Agreement (Insurance Program) will study and evaluate local Blue Cross and Blue Shield plans to determine if the benefits such plans are providing are in "reasonable conformance" with the benefits provided employes in Michigan, as required by Section 3(d) of the aforementioned Exhibit B and by Article III, Section 1(b) and (e) of Exhibit B-1.

The Committee shall study the benefits offered by the local plan in each of the benefit areas including but not limited to the following:

(a) service benefits;

(b) income limits;

(c) coverage for podiatrists;

(d) payment for intensive care units;

(e) payment for home nursing;

(f) payment for services to new borns;

(g) payment for technical surgical assistance;

(h) post operative;

(i) charges to outpatients for "Class II services".

The Committee will consider the extent to which the local plan provides the above, other benefits in excess of those provided in Michigan, and the extent to which the benefits it provides are below the Michigan level.

The Committee will attempt to raise to the Michigan level any benefits which are significantly below that level. It being understood, however, that if the plan is continued in effect any benefits it provides in excess of those provided in Michigan will be retained.

Very truly yours,

/s/ LOUIS G. SEATON
Louis G. Seaton
Vice President

Accepted and Approved:

INTERNATIONAL UNION, UNITED
AUTOMOBILE, AEROSPACE AND
AGRICULTURAL IMPLEMENT
WORKERS OF AMERICA, UAW

By /s/ LEONARD WOODCOCK

Misc. (Group med. practice plans ltr.)

GENERAL MOTORS CORPORATION

October 5, 1964

International Union, United
Automobile, Aerospace and
Agricultural Implement
Workers of America, UAW
8000 East Jefferson Avenue
Detroit, Michigan 48214

Attention: Mr. Leonard Woodcock

Dear Sirs:

This will confirm our understanding that the reference in the last sentence of Article III, Section 1(f) of Exhibit B-1, 1964 General Motors Insurance Program for Hourly-Rate Employes to "a plan similar in type to the Kaiser or CHA Plans" includes any plan or plans under which group hospitalization benefits are provided through an arrangement with a Blue Cross organization or other carrier rather than through its own facilities.

Very truly yours,

/s/ LOUIS G. SEATON
Louis G. Seaton
Vice President

Accepted and Approved:

INTERNATIONAL UNION, UNITED
AUTOMOBILE, AEROSPACE AND
AGRICULTURAL IMPLEMENT
WORKERS OF AMERICA, UAW

By /s/ LEONARD WOODCOCK

Mr. SCHNEEBELI. I think this is the prototype from which they are going to make demands of all of the steel industry in the forthcoming negotiations before the May 1 deadline. I just wanted to clear the record.

Mr. BYRNES. Mr. Glasser, how many are covered of the automobile and agricultural implement people? How many individuals do you have as a result of retirement?

Mr. GLASSER. Very close to 150,000.

Mr. BYRNES. And of course they are presently entitled to benefits.

Mr. GLASSER. Yes, sir.

Mr. BYRNES. Then your total employment that are current workers?

Mr. GLASSER. In these industries? About 700,000.

Mr. BYRNES. Are these contracts all pretty much the same, your agricultural implement contracts and the automobile workers contracts?

Mr. GLASSER. Yes, sir.

Mr. BYRNES. Practically identical.

Mr. LESSER. In the fringe benefit area.

Mr. GLASSER. Very similar in fringe benefits.

Mr. BYRNES. I am talking about the medical care. That package is pretty much identical.

Mr. GLASSER. Yes.

Mr. BYRNES. What do they contain by way of a condition of employment for eligibility?

Mr. GLASSER. You touch a sore spot of the recent negotiations which have been happily concluded. Until this contract, with the exception of one of these major contracts, in order for a retired worker to be eligible for these hospital-surgical benefits about which we are talking he had to be a status retiree.

In other words, he had to have 10 years' vesting, he had to be eligible for a pension, and then he picked this up. The modification that we secured in these contracts was that it would cover all persons who are past 65 and who have status as active workers, in other words, who have worked for any period of time for the company.

They do not have to be pensioners in order to get this. You can understand the reason for our concern, because with the shortage of skilled workers the employers were taking on a considerable number of older workers who would not have been eligible for pensions but whom we felt should be given this added protection.

Mr. BYRNES. In these contracts does the company contract out the risk, or do they just contract out the administration of benefits?

Mr. GLASSER. The arrangement with the companies, and it is the same for all the companies more or less, is that they agree to supply the benefits which have been negotiated, and they are listed, and furthermore it states that the company with the approval of the union shall select the carrier who shall underwrite this, and in all instances this is the way it works.

Mr. BYRNES. As far as your contract is concerned it permits, for instance, Ford Motor Co., to say, "We will assume the risk. We aren't going to contract on the basis of a premium for insurance." The company will guarantee the benefits. They will also have the authority under your contract to make a contract with, let us say, in one area Blue Cross and Blue Shield and in another area a private company, to pay a fee to administer these benefits. The employer reimburses the administering agency for whatever the benefits cost.

In other words, they assume the risk.

Mr. GLASSER. It is possible for this to be done with the consent of the union. The answer to you is in the affirmative. There are two factors that we would use as criteria in evaluating this.

The first is responsibility to our membership to be certain that the benefits will be there in toto, and the second is responsiblty to the communty, because this is an element, and an essential element, in our collective bargaining.

We believe that we should not be adversely affecting the community and it is quite conceivable, for example, if you took the large bulk of UAW membership out of a Blue Cross plan you could conceivably destroy the plan or raise the rates so high for the rest of the community that it would effectively destroy it, so we would introduce both those elements.

Mr. BYRNES. You could still go through Blue Cross and Blue Shield in the community, but instead of paying the going premium, you would simply have them administer the plan. The Ford Motor Co. says, "You send us the bill and we will pay the dollar amounts. We will take the risk as to what it is going to cost in a given year."

Mr. GLASSER. It is quite conceivable that that could be done. It is not now being done.

Mr. BYRNES. None of this is done in that way.

Mr. LESSER. No.

Mr. BYRNES. I am rather surprised frankly.

Mr. LESSER. You see, actually in the State of Michigan there is only one rate. It is a community rated plan, as Mr. Glasser said before. In other States, even though they pay a premium, the premium is adjusted from year to year on the basis of their experience.

Mr. BYRNES. It is an annual premium they are paying each year?

Mr. LESSER. Yes, monthly, but the rate is fixed for a year.

Mr. BYRNES. I assume that the rate is fixed in these circumstances by contract.

Mr. LESSER. Yes.

Mr. GLASSER. They enter into a 3-year contract with us, but the Blues may adjust the rates at any time the insurance commissioner gives them authority to adjust them.

Mr. BYRNES. I understand. The benefits that you have in your plans are pretty comprehensive, aren't they?

Mr. GLASSER. They are pretty comprehensive. They are seriously deficient because there are still very large unmet areas of need.

Mr. BYRNES. Just so I can get a picture of what you do have covered and what is the area that is not taken care of?

Mr. GLASSER. I do not mean to be unresponsive. I shall be responsive, but I could also leave with the committee a list of that. We provide, you see, 365 days of hospitalization.

Mr. BYRNES. There is no deductible on that.

Mr. GLASSER. No, sir.

Mr. BYRNES. Or no coinsurance.

Mr. GLASSER. There is no deductible or no coinsurance because it is an essential part of our philosophy that we do not want economics to be a deterent to the obtaining of good medical care earlier.

Mr. BYRNES. You cover a hundred percent then of hospital care?

Mr. GLASSER. Yes, sir, and all our programs have as their objective service benefits, that is, no additional charges to the recipient of the care, with a few fairly minor exceptions.

About 90 percent of our people are covered by service programs as against programs that only pay part of the charge.

Mr. BYRNES. Mr. Glasser, there can't be any inadequacy in hospitalization, can there, because if you give someone 365 days, and I assume you make adjustments for leap year, there isn't any day of the year that isn't covered.

Mr. GLASSER. My answer to you is in the affirmative with a reservation and the reservation is we don't like to look at these programs in segments because we believe in a continuum of care and we would think it would be disastrous, let us say, to provide 365 days of hospital care and nothing else, so that from that point of view, yes, it is complete in that respect. It also carries inhospital benefits as well. The one major exception there has been with regard to nervous and mental conditions where we provided for 30 days in our contracts with a few exceptions, and now we have upped that to 45 days because our studies have shown that if we could provide nervous and mental for 45 days in acute hospitals we could probably take care of almost all the cases which can be treated and gotten back into the community rather than shuffled off to the State hospital.

Our objective is to keep them out of the State hospitals. So in the hospital area it is pretty complete; and that is supplemented by this new convalescent and nursing home care program which kicks in in September of 1966.

In terms of the outpatient care we have added some new benefits, one of which I should say to the committee and make clear for the record may seem unusual; but in order to write these benefits they have to go clear across the contract and we have provided for the first time prenatal and postnatal care which is available to our retirees as to all other members.

Mr. BYRNES. In other words, you are not restricting the exceptions?

Mr. GLASSER. We are not restricting the exceptions. In addition to that we have provided for the first time in a nationally negotiated collective bargaining contract a series of outpatient mental health care benefits which we are extremely interested in because our studies have shown that there has been a woeful neglect of early treatment among workers, even workers with as good coverage as in our contracts.

I won't take the time here to illustrate a complete range of benefits.

Mr. BYRNES. What do you do about the TB case?

Mr. GLASSER. There is a restriction on the TB case. I have forgotten what it is. I think it is 30 days in an acute hospital and after that it is a public hospital. Those are really the major elements in the program, but I should point out, for example, that, as you gentlemen know, 20 percent of the national medical bill is in the area of drugs, and in the treatment of persons who are ill these days requiring drugs this is a large element.

This is not now in our program. It has been negotiated in both the GM of Canada and Ford of Canada contracts and I believe will be in the Chrysler of Canada, one which is now certain of being brought to a conclusion. So that in this area there is a deficiency.

Our members are extremely anxious that some provision be made for dental care, which is not now available.

Mr. BYRNES. No dental care at all, or is some oral surgery provided?

Mr. GLASSER. It is only oral surgery of the most limited sort.

Mr. BYRNES. Yes, I understand.

Mr. GLASSER. We have provisions in many of our contracts for choice between the Blue Cross-Blue Shield and the direct service group practice programs which the employer no more in premium so that we have many members in Kaiser, in our own community health association in Detroit, and in other group practice programs around the country, but we think it is a good and a comprehensive program, particularly with the new benefits.

We have no illusions. We have a long way still to go.

Mr. CRUIKSHANK. Mr. Glasser, would you mind if we give this description to the reporter and ask that it be inserted in the record?

The CHAIRMAN. It would be very helpful.

Mr. LESSER. We would be glad to submit for the record also, and I don't expect you would want to print it, a copy of the complete agreement.

The CHAIRMAN. We would like to have that, but not in the record.

Mr. CRUIKSHANK. This summary I think would be useful in the record.

(The information referred to follows:)

SOCIAL SECURITY DEPARTMENT, UAW,
September 10, 1964.

HOSPITAL-SURGICAL-MEDICAL PROGRAM (UAW-CHRYSLER)

The following summary contains the major provisions of the new benefits, coverage, and standards in the hospital, surgical, medical program negotiated by the International Union, UAW, and the Chrysler Corp. in the agreement reached on September 9, 1964. These are in addition to the benefits and coverage contained in the 1961 contract.

BENEFIT PROVISIONS[1]

A. Hospital care benefits

The benefits provided for all employees in the bargaining unit shall be those now provided under the Michigan Blue Cross contract, with the following changes and additions:

(1) *Convalescent and long-term illness cases.*—To be covered as an inpatient in an "approved facility" for a maximum of 730 days in a benefit period (i.e., period not separated by 90 days free of hospitalization), less twice the number of any days in a benefit period in which the patient was confined in a general hospital. (Institutions providing custodial care or primarily providing care to the mentally ill are excluded.)

(2) *Nervous and mental cases.*—Hospital benefit days shall be increased to 45 days in a benefit period with a 90-day corridor, or the number of days now provided in the contract, whichever is the greater. In-hospital medical benefits will be similarly extended.

B. Medical care benefits

The benefits provided for all employees in the bargaining unit shall be those now provided under the Michigan Blue Shield contract, with the following changes and additions:

(1) *Elimination of restrictions on class II services to inpatients.*—Eliminate all "deductible" charges to patients, and maximum dollar limits for any class of service now listed as a class II benefit in the M–75 contract. This would provide as part o fthe basic program, without additional charges to inpatients, diagnostic X-rays, electrocardiograms, electroencephalograms, and charges for referred consultation and surgical assistance.

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[1] Effective Sept. 1, 1966.

C. New benefit areas

(1) *Outpatient mental health care.*—Program to provide short-term therapy (including psychotherapy, group therapy, day and night center care, and psychological testing), for emotionally ill workers and members of their families, including outpatients of a hospital and other ambulatory patients.

(2) *Prenatal and postnatal care.*—Program would provide prenatal and postnatal care for maternity cases on a fee basis which would not permit the physician to extra bill the patient who meets the established income levels. (Current programs in effect indemnify the patient, at rates from $75 to $90, for delivery services only.)

COVERAGE OF HOSPITAL-MEDICAL INSURANCE [2]

A. Inclusion on basis of full premiums paid by corporation

(1) All retirees, their spouses, and dependents. (In 1961, contract retiree pays one-half the HSM premium. Corporation will now pay full premium.)

Retiree.—To include anyone receiving a pension benefit (normal, early, and disability) and those terminating after normal retirement age (past and future) with no pension benefit.

(2) Employee on approved disability leave of absence or on the corporation's coded PQX system (long-term partial disability), his spouse and dependents, for the period of his disability leave or the period of his seniority, which ever is the lesser.

B. Inclusion under group contract on basis of full employee or beneficiary contribution

(1) Employee on approved leave of absence for union business, other than regular full-time employment with the international union, shall retain his entitlement to insurance coverage under the group contract while he remains on such leave.

(2) Laid-off employee, during continued layoff, up to a maximum of 12 additional months, after the employee has exhausted the coverage to which he is entitled on the basis of SUB credits.

(3) Employee on disciplinary layoff, or employee who is discharged or who has his seniority broken, during the period any appeal from these actions is pending.[3]

(4) Surviving spouse and dependents of an employee for the period for which she or he is eligible for the transition benefit, the bridge benefit and the survivor's pension.

(5) Surviving spouses and dependents of all retirees as defined in A(1).

C. Amendment to definition of dependents (new coverage) [4]

To include under the family contract at no additional cost to employee:

(1) Son or daughter under 25 years of age who is unmarried not regularly engaged in a full-time employment and resident at home;

(2) A disabled son or daughter over 25 years of age recognized as a dependent person for income tax purposes.

D. Transfer of employees

Where an employee is transferred to a new location (in such case as a movement of plant or operation, or the transfer of an employee from one plant to another), there shall be no waiting periods and he and his dependents shall be eligible for all benefits immediately, even when changing from one carrier to another.

E. Changes in carrier

(1) All employees and retirees shall be entitled to change programs (such as from Blue Cross-Blue Shield to CHA or vice versa) during a specified, mutually acceptable period, once during each year, and the employees shall be notified of such entitlement by the company.

F. Eligibility of employees and commencement of insurance

A newly hired employee shall become covered under this insurance program on the first day of the month following the month in which he became employed. if he is not otherwise covered under current provisions.

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[2] Effective Oct. 1, 1964.

[3] If appeal is upheld, corporation will reimburse him for premium outlay.

[4] Effective September 1966.

G. Maternity benefit eligibility[5]

Employees and dependents shall become eligible for full maternity benefits (without further waiting periods) upon meeting eligibility requirements for commencement of insurance.

Application of a standard of benefits

In areas where local Blue Shield plan benefit levels, including administrative practices and interpretations are below Michigan M–75 Blue Shield levels, and if improved coverage at least to the Michigan level cannot be obtained from the appropriate Blue Shield organization, a new plan will be established, with the concurrence of the corporation and the UAW to provide a plan at the Michigan M–75 benefit standard, on a "reasonable and customary" fee basis.

Included under the "standard of benefits" definition are:

(1) Intensive or progressive care units.
(2) Home nursing programs.
(3) The services of podiatrists.

Company-union committee

A committee composed of two members designated by the union and two members designated by the corporation shall be established to study and evaluate the hospital and surgical insurance program covered by this section, and to make recommendations for the purpose of achieving the maximum coverage and service for the employees covered by the various hospital and surgical plans for the money spent for such protection. In the performance of its duties, the committee shall consult and advise with representatives of organizations providing the health insurance benefits and services and keep the parties to the contract informed with respect to the problems which arise in the operation of the program.

Mr. SCHNEEBELI. Do you have a copy for each member?

Mr. LESSER. I will see that you get that.

Mr. SCHNEEBELI. Thank you.

Mr. BYRNES. I can see that drugs are a heavy cost, particularly to your aged group, not now covered under your plan.

What other elements of medical care cost are still uncovered that are substantial?

Mr. GLASSER. Obviously even larger than drugs is medical bills. You see, outpatient medical services are not covered, that is, payment of physician fees, except in our direct service group practice programs where they are covered, of course.

Mr. BYRNES. The plan doesn't cover outpatient doctors?

Mr. GLASSER. No, sir; no, sir. It covers surgery. It covers inhospital medical care. It does not cover payment of physician fees outside the hospital, and, of course, in our judgment this is a serious deficiency in the prevention of illness and a reduction of hospitalization, and our evidence with our own group practice program is fairly substantial to indicate it does hold down costs.

Mr. CRUICKSHANK. But this is an area into which they can easily go. This is a good example of an area into which they could go without increasing costs if they had a social security program.

Mr. BYRNES. Yes, I understand. That is why I was trying to figure out where the areas were, because I was under the impression it was a very comprehensive plan.

Mr. GLASSER. Yes; medical, drugs, dental, eyeglasses, et cetera. Those are some of the major areas that are omitted. Without question the two priorities would be the outpatient medical and drugs.

Mr. BYRNES. Don't you cover medical care following hospitalization in the posthospital medical care?

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[5] Effective September 1966.

Mr. Glasser. There is provision in the contract, sir, for a restricted number of visits. It varies with the various contracts, with the Blues. It generally provides payment for postsurgery in the 14-day period following surgery.

In some instances the contract is written so it will provide up to x number of visits by the surgeon without the 14 days, but it is a very restricted benefit.

Mr. Byrnes. You pointed out in your statement, and I think certainly it is most reasonable, that in the negotiations the big factor is the dollar.

Mr. Glasser. Yes, sir.

Mr. Byrnes. What dollar cost as far as your automobile workers contract is concerned will be relieved as a result of the passage of the King-Anderson bill with its present package of benefits?

Mr. Glasser. I am sorry, I cannot answer that question. It isn't because we haven't tried to figure out an answer, but our actuaries have been unwilling to commit themselves on the rough figures and I am therefore unable to do so. They say there are a great many intangibles. There will be substantial savings. I will answer that in reverse and indicate that the associate president, I believe it is, of the Blue Cross of Michigan has said that he expects in Michigan that Blue Cross would save $16 million with the passage of legislation something like this.

Mr. Byrnes. That is what Blue Cross says. Is that also the same figure that the employer, as far as their Michigan employees are concerned, will save?

Mr. Glasser. No, sir; it wouldn't be the same because there are a number of groups that are obviously not under our contracts. We have a little in excess of 50 percent of all the group contracts held by Blue Cross in the State of Michigan.

Mr. Byrnes. I want to determine where this $16 million savings comes from and what part of this will be a saving to the employer that you will have available for bargaining purposes. I assume you will say to the employers "You have been relieved of so many dollars of cost that you have already dedicated to our retired workers," because you are going to talk in terms of the extension of your policy on the basis of the dollars that they now have available?

Mr. Glasser. Good assumption.

Mr. Byrnes. And what I am trying to figure out is what that dollar amount is.

Mr. Glasser. I am sorry, sir. I just cannot answer that, and let me explain quickly why. It is dependent upon what will be the change in the Blue's premium rates.

In other words, we can't figure that out. It has to be determined by the Blue's in accordance with what happens to the change in the mix in their population. I should say to you in preparation for this session I raised that question as to what would be the expected savings and was told, "It is much too complicated a question for us, the Blues, to answer at this point," so I can't give you the information.

I am sorry.

Mr. Cruikshank. There is no question it is substantial, however.

Mr. Byrnes. What you will really have to do then is wait and see what the total premium costs are after H.R. 1 would go in effect and then simply take the difference between that new premium and the premiums they have been paying in the past and say, "Now this is the package fundamentally that we have to play with or work with."

Mr. GLASSER. Yes.

Mr. BYRNES. In terms of getting an expansion of your present coverage for these people.

Mr. GLASSER. We believe our employers will be more advantaged, if I may use that phrase, than other employers, because our contracts all cover the retirees and many other contracts do not, so the savings will be larger we expect for our employees.

Mr. BYRNES. Do all of the auto companies have Blue Cross and Blue Shield?

Mr. GLASSER. The answer to you is basically, yes. In four plans where there have been problems in getting these service benefits, with our concurrence they have switched from the Blues to commercial carriers who are providing the full range of benefits, but, as I indicated in the beginning of my statement, over 90 percent of our members are in plans with service benefits under the Blues.

Mr. BYRNES. When Blue Cross tells you that they are going to save $16 million, have they estimated the cost attributable to the retired group?

Mr. GLASSER. Yes, sir.

Mr. BYRNES. And that cost is of course higher to them than the overall group?

Mr. GLASSER. It certainly is. This was not a statement to me. I want to make that clear. This was a public statement they made at a meeting. This was not a statement directly to the UAW.

Mr. BYRNES. But that is what they have said.

Mr. GLASSER. That's right.

Mr. BYRNES. That this would save them in terms of payouts to hospitals for the over-65 group?

Mr. GLASSER. Yes.

Mr. BYRNES. That they are presently insuring?

Mr. GLASSER. Yes, or you might turn that around and say it is an estimate of what they will save as against the losses they are now having with this group because they have a common rate for all people and a man of 40 and a man of 70 has the same rate, and obviously the man of 70 is using that plan much more heavily.

Mr. BYRNES. Fundamentally this is their payout for that particular group?

Mr. GLASSER. That is right.

Mr. BYRNES. Which has two elements to it. One is the undercharge of premium really, if you were going to put the premium on an individual age basis, and the other is the more basic general cost that they just don't have. They have two cost savings, one the additional cost that is attributable to a person just because he is over 65, and then you have the other also.

Mr. GLASSER. That is correct.

Mr. BYRNES. That is in Michigan as a whole or did you say that was in Detroit?

Mr. GLASSER. That was for Michigan.

Mr. BYRNES. The whole State of Michigan?

Mr. GLASSER. Yes. I repeat this was an estimate given at a public meeting. I do not know the basis on which it was arrived. We are just hypothesizing.

Mr. BYRNES. Let me ask one question about this coordinating plan. Mr. Cruikshank, you suggested it could be very readily done. Your auto workers' contracts of course provide automatically that there is not going to be duplication, but you point out, Mr. Glasser, that even the matter of determination of what the value is of that may present some difficulty.

Mr. GLASSER. May I correct that impression if I left that impression. I do not believe it presents any in terms of the duplication problem. Let us simply say for the sake of argument that the legislation in its final form provides 60 days of hospital care.

It also provides in its present form for a 1-day deductible, cost of 1 day. What the companies would do with our consent is write a new contract with the Blues which would provide for the over-65 group that they would pay the first day and they would pay beginning with the 61st day.

Mr. BYRNES. But I would assume that allocating costs on that basis would create some difficulty. In other words, how much of the cost is attributable to the deductible, frankly, or the first day for these people? Then you have the problem of determining how much then is the cost element of the 60 days and how much is the cost element after that. We have been advised that the per diem cost of services does decrease as a person stays longer because you have the biggest elements of cost in the first few days.

Mr. GLASSER. Right.

Mr. LESSER. I think you are right, it would require an adjustment, but if we were to come in now, for example, and in this Blue Cross plan, say, we want a contract which really provided those benefits, the 1st day and the 61st thereafter, they would make an estimate as to what the cost would be and you could get a premium.

They would know there is a certain amount of saving. They would estimate what it was. Mr. Glasser says the contract would be rewritten to exclude this period of the 1st and the 61st day. It is quite obvious there would be some adjustment in the premium.

If they knew of it coming they would make an adjustment and at the point the legislation went into effect a new agreement would go into effect with the reduced premium.

Mr. BYRNES. I don't question the ease with which the company and the insurer can work out a change in their contract so that there isn't a duplication.

I think you are going to certainly run into complications in terms of the negotiations, as far as our employees and our retired people are concerned, as to what replacement the company is going to make.

Mr. GLASSER. You mean in terms of cost?

Mr. BYRNES. Well, or of additional service.

Mr. LESSER. This you run into every time you negotiate a contract, what new benefits you are going to provide.

Mr. CRUIKSHANK. There are no new additional problems that arise because of this at all.

Mr. LESSER. You would have to determine the new benefits, but this you always negotiate.

Mr. Byrnes. It does give you a new area for negotiation. That is your point really.

Mr. Cruikshank. Right.

Mr. Glasser. It is a problem we look forward to with pleasure.

Mr. Byrnes. I imagine so. Let me ask this. Will you give the employers a certain amount of credit for the fact that they will be paying for this governmental service through their 50 percent of the payroll tax?

Mr. Glasser. I can assure you that they have highly competent staffs and if we shouldn't give them credit for any iota of matter that requires credit it will be pointed out.

Mr. Lesser. It will be negotiated.

Mr. Byrnes. That is another point of negotiation. That is all. Thank you, Mr. Chairman.

The Chairman. Mr. Cruikshank, you were not asked to testify on this point, but since you are here I want to bring it up.

Yesterday the question arose with another group that was here to discuss this bill about reasonable costs that we use, that we would pay reasonable costs for this care. The statement was made that that would result in the costs charged or the charges made by hospitals for other than the aged being higher than they are now, and that disturbed me. I didn't believe it possible and I don't know whether you have thought about it or not, you, Mr. Glasser, or any of you.

If that were the result I can see that there would be some opposition on the part of our younger population to such a program.

Have you thought in terms of the payment of reasonable costs for these aged people under this program increasing charges that would have to be paid by the younger patients in hospitals?

Mr. Cruikshank. I don't see, Mr. Chairman, how that could arise in such a way that you couldn't meet it. Surely there are in hospital costs certain elements of the overall operation of the hospital that can be charged to a certain group of patients.

For example, today we know that some of the costs for welfare patients that are not met, say, by a city welfare department are allocated to the charges, not to the costs, but to the charges, that are charged against other patients.

The Chairman. The way it works today, as I understand it, if a hospital succeeds, whether it is profitable or nonprofitable hospital somebody has to pay the costs of operating that hospital during the course of a pear. If they don't get it they go around and ask people to make contributions perhaps, but my thought about it was this:

That if you reduced the numbers of those that the hospital must take care of on a charity basis, as has been done to some extent, even under the present MAA program, if you relieved the hospital of that loss which it must charge to the paying patient, that wouldn't result in the transfer of any additional burden to the paying patient.

You would take off part of the burden.

Mr. Cruikshank. Exactly.

The Chairman. I couldn't understand their argument.

Mr. Cruikshank. In fact it would have quite the opposite effect.

The Chairman. You feel that way about it, that this program doesn't result in your people who are presently working having to pay more for hospital services during their working years because of it.

Mr. Cruikshank. No, that is quite true, it would not have that result.

Mr. Glasser. May I expand on that one moment.

The Chairman. I would want you to because I would like your advice about it.

Mr. Glasser. We have been very much in the cost picture on this thing for perfectly obvious reasons. One of the real problems is the difference between costs and charges, and, as you know, the commercial carriers pay charges.

The Blues pay costs. This program would provide for costs. One of the major facors, as Mr. Cruikshank has indicated and as you seem to indicate, is that in the welfare case situation the cost of that is largely put into the charge area.

In other words, most of the Blues in the way in which they handle the auditing, et cetera, exclude the welfare deficit, so that it is the commercial carrier who is paying it through the charge or the individual citizen who has no coverage.

From that point of view I think it can be demonstrated quite clearly that the commercial carrier would be advantaged if the program took the great many cases which are now welfare cases and which are being subsidized by the hospitals and then paid for not in costs, but paid for in charges.

Mr. Cruikshank. And therefore being subsidized by the other group of patients, but this would be decreased.

The Chairman. I was thinking, Mr. Cruikshank, in terms of eliminating any possibility of hospitals having to subsidize any part of the hospital program offered through any Federal program, of maybe adding to H.R. 3699 when we get to it some provision that would require States in the administration of the MAA program, if they are not now paying reasonable costs, to pay reasonable costs, so that even there it could not be demonstrated that a part of that hospital's burden of accepting from the State less than what is reasonable cost could be transferred over to some paying patient. If we are going to do the job and utilize hospitals in the process we shouldn't do just part of the job and force some of the remaining costs of taking care of these people over to the paying patients.

That wouldn't be right and I don't think it should be done. The question developed I think from the concept of whether reasonable cost is full cost. Maybe they were thinking in terms of reasonable cost being something less than the actual cost of taking care of that patient.

Reasonable cost can be full cost, can it not?

Mr. Cruikshank. Yes, it can, but your problem of course arises whether full cost is the total number of patient days divided by the number of patients and applied to the number of days he is in, that is, the total operation cost of your hospital. But the reasonable cost or even full cost for an individual case does not need to equal that figure, that is the total cost of operating the hospital divided by the number of patient days, because there are other costs, such as educational costs and so forth that are connected with the hospital.

The Chairman. You understand that isn't quite the way they would look at it. They look at the average cost of taking care of this group in the individual hospital, but when you do that over a course of a year it seems to me that you would average out paying the costs of taking care of this group.

Mr. Cruikshank. Yes; that is right.

The Chairman. You might not with respect to one patient. You might pay a little more with respect to one patient, but you would average it out over the course of a year I think, and in the process of taking care of these where now all of their costs are not presently taken care of, I don't see how anybody could argue that this program would place an additional burden upon those who are paying their own hospital costs. I just couldn't see it.

Mr. Cruikshank. It certainly doesn't necessarily. It can be avoided certainly.

The Chairman. I think there is great danger of that exact situation existing today with respect to the State operation of the MAA program.

Mr. Cruikshank. Yes, and of course we know that all the State welfare groups of the States that have developed their MAA programs have run into this hard choice as to whether they do a great deal for many people or a very little for a great number of people, and they have bargained hard with the hospitals, too hard in some cases, so that the proportion of the daily cost is not met, reasonable or total.

It doesn't come near either one, and there is a deficit, and that deficit has to be made up some way. When you come to H.R. 3699, which we haven't had a chance to examine closely yet——

The Chairman. This point is not in it now.

Mr. Cruikshank. I know, but I would certainly think your committee would want to think of this and I would suggest again that it will be much more feasible to do that, to require that of the state, if you have taken off this big chunk of the burden by an insurance program.

The Chairman. There is one other thing I have to talk to you about. I wanted you and Mr. Glasser to respond.

This is aside from the health care of older people, but there is one great gap, as I see it, in Federal and State programs that I would like to see at least partially corrected, if not completely corrected, and that has to do with the illness of heart attack, of cancer, stroke, or whatever else you might think of, tuberculosis, of the head of the household who is not at that point eligible for workmen's compensation, and not eligible for unemployment compensation because he is not available for employment. Let us assume that he is not eligible for disability benefits because no doctor can say that the individual is permanently disabled, and he is not eligible if he happens to be a veteran, even for veterans pension.

I don't know whether any of your contracts that you have ever bargained for make provision for that kind of a case or not, but ever so often when I go through a veterans hospital, or when I am at home and somebody, who is not even a veteran, will call my attention to the fact that here he is incapacitated 8 or 9 months and at the end of the first 2 or 3 or 4 months maybe the family has used up all he has been able to accumulate or save and the worry of his family's financial condition in my opinion does an awful lot to prevent him from more speedy recovery.

What I have been thinking about has been maybe an amendment of the disability program itself to allow for these kinds of cases. Isn't there a gap there?

Mr. CRUIKSHANK. There is.

The CHAIRMAN. Is there any provision you know of anywhere in the Federal or State law that this family gets any assistance during this period of time.

Mr. CRUIKSHANK. Only under the temporary disability provisions of the four States that have it.

The CHAIRMAN. New Jersey and some of the rest of them.

Mr. CRUIKSHANK. California, Rhode Island, and then New York has it under their workmen's compensation.

The CHAIRMAN. If this is to be done, do you not think that it more appropriately belongs as a part of the disability social security program than the unemployment compensation program?

Mr. CRUIKSHANK. I think that very definitely has been shown. Rhode Island adopted this in 1942 and then California in 1945; immediately after that New Jersey and New York.

New York, however, went the workmen's compensation route, and since 1950, now almost 15 years, there has not been a State program where we have been able to get a temporary disability program adopted. It looks very much as if it is stalled on dead center in the unemployment compensation route, and it seems to me that it is much more desirable to do it at the Federal level because right off you run against a competitive State situation when they start doing this under the States.

The CHAIRMAN. The other States could have done it over the years if they had wanted to, just as New Jersey, and the other three.

Mr. LESSER. In those States they don't take care of the cases you are talking about which is a long-term disability which lasts more than 6 months but is not permanent. It would be quite simple to in effect leave the requirement that the disability be permanent as long as it lasts more than 6 months, begin to pick up benefits after the 6 months.

The CHAIRMAN. In the cases I am talking I don't want to wait for 6 months to pick them up. I don't know that I want to take the word "permanent" out of the disability program altogether.

Mr. LESSER. I am saying that would be one way, or you can pay with a shorter waiting period.

The CHAIRMAN. In all of the cases I am talking about there is no program that I know anything about that is established to help with the family financial situation, and I don't suppose you even have that, Mr. Glasser, in any of your contracts.

Mr. GLASSER. We do.

Mr. LESSER. We have negotiated programs that pay benefits. In the auto industry they pay for the first 52 weeks of disability.

The CHAIRMAN. They do?

Mr. LESSER. Yes. There are others that pay for 13, or 26 weeks.

The CHAIRMAN. You have been ahead of me in my thinking on that.

Mr. GLASSER. It isn't a matter of being ahead of you. I think this only adds substantially to what you say. Our members who have had 26 weeks felt this was high enough on the priority of the things they needed. This was one of the hard core so-called demands, and we just extended it from 26 to 52 because in the judgment of our members this was a major gap that had to be met.

The Chairman. It is a major gap in your opinion, isn't it?

Mr. Glasser. Oh, yes, sir.

The Chairman. One other thing, Mr. Cruikshank. I don't know why they left out my pet provision in this bill dealing with the matter of taking care of dependent children beyond the age of 18. You are still for that, aren't you?

Mr. Cruikshank. We think it is desirable. We think it is a desirable addition, and, of course, there are many desirable additions that we could add.

The Chairman. You give priority to this, don't you?

Mr. Cruikshank. But it is not as high on our priority list as some. We felt that the major gap here is the matter of the cost of hospitalized illness and that it is important to meet that, and we certainly can say that this is desirable, but it is not as desirable as the others.

The Chairman. I think this committee should pass the provision relating to the children in school by unanimous consent. We should not leave it out.

Mr. Cruikshank. I hope the committee does include such a provision if it doesn't jeopardize the others having the higher priority.

The Chairman. Mr. Curtis.

Mr. Curtis. Mr. Chairman, first going back to the colloquy in respect to the point that this bill removes the load on the hospitals for the charity patients over 65. I think the theory of this is very good until one begins to look at the problems of the individual hospitals. There is one that I looked into, and this is a teaching hospital and one with quite a bit of charity work, and I think fairly typical.

Five percent is the figure for over 65 in the charity beds. Thirteen percent of people over 65 are in the paying beds. It is a fact that you relieve the 5 percent, but under the bill the overloading that they give to the paying beds will be removed from this 13 percent, leading this one particular hospital to say, "If this goes through we are just not going to be able to take care of people over 65," because of the removal here.

The question then would be, Is this typical? In other words, is this just peculiar to this hospital? However, this goes back to some figures this committee has collected over a period of years.

Contrary to many impressions created, the people over 65 are by far the best paying group on hospital bills of any age group in our society. There have been a number of studies from all sections of the country that substantiate this.

Do you get the point I am making, if you are just going to assume that your charity load in a hospital was heavily oriented toward people over 65, while you patients were not so heavily in the over 65 group. Do you follow what I am trying to present?

Mr. Cruikshank. I am afraid I don't.

Mr. Curtis. Well, go back to your theory that you are removing the burden on the hospitals through this bill of the charity patients over 65. You recognize that part.

Mr. Cruikshank. We say that is part of the problem; yes.

Mr. Curtis. I am simply saying the other side of this coin is that these hospitals presently are charging the pay beds pro rata with the cost of all the charity patients part of them. I don't mean all of them. Part of the costs of charity patients are taken up by spreading over and having the pay patient pay for it. Do you recognize that?

Mr. GLASSER. No.

Mr. CURTIS. Then we are not going to get anywhere, because this is the testimony, I might say, of practically every hospital that has testified.

Mr. GLASSER. May I simply explain why I shook my head in the negative?

Mr. CURTIS. Yes; certainly.

Mr. GLASSER. Under the Blue Cross formulas in practically all the States that I deal with, which is a majority of them, the welfare costs are excluded.

Mr. CURTIS. Are excluded. I see what you mean.

Mr. GLASSER. So that actually it is only the group that pays charges as against costs that bears this spreading.

Mr. CURTIS. I see what you mean, so what you would be excepting from this would be if there were any Blue Cross patients in there, if it were in that particular area of the 80 Blue Cross plans where they don't permit this, because some of the Blue Cross plans do recognize an overloading in the teaching hospitals as well as where they take on charity patients.

The main thrust of my argument, though, now is where you do have a hospital that has set up its accounting on this basis what you do is take away the 13 percent of people over 65 who are in paying beds from the group that is absorbing this cost of the whole charity-teaching overload.

Mr. CRUIKSHANK. Even at that, to the extent that that is true, it is a matter of equity whether these older people should be charged these costs that pay——

Mr. CURTIS. Oh, no, there is no disagreement on that. I am not arguing whether they should or shouldn't. In fact, one reason for the No. 1 section of the Kerr-Mills Act was our feeling that, inasmuch as it was pointed out to us that the charity patients were not really being fully paid for through old age assistance programs, we should increase the amount that could. So I wouldn't disagree as to whether it is an equitable thing, or proper thing, really, to increase the costs of the beds of the pay patients to pay for some of this on a pro rata basis, some of this cost for charity patients and teaching.

I am not arguing that. I am simply saying that is what they are doing and have been doing. One reason the cost of a teaching hospital and one that has a lot of charity patients is considerably higher than a hospital that takes very few charity cases, and one reason your proprietary hospitals can charge less than a nonprofit hospital, is because of course your profit or your proprietary hospitals don't take charity patients.

Some of this cost is made up by the community chest, endowments, and so on, but this is the problem that has been posed by at least several hospitals. What would happen if this bill became law under the way they presently are set up? Would they have to fill the beds with pay patients that would pay for part of this spreading and because under this program, as to the 13 percent people over 65 who they now admit and who do pay, under this thing they would not be paid anything for this overload.

Mr. CRUIKSHANK. It may be a problem, but it is not an insurmountable one and it is nothing comparable to the problem of people presently who have unmet hospital needs.

Mr. CURTIS. In other words, all I am trying to do is call attention to some things to see if you had any thoughts on them from the standpoint of if we are going to write this legislation to consider possible solutions.

I don't want us to have the legislation written and then be confronted with the proposition that a number of hospitals will not be taking patients over 65. If that were the case we would be doing these people over 65 a grave injustice. I think this is probably a pattern, but I have given the figures of the 5 percent of the charity patients over 65 in relation to 13 percent of the pay patients over 65.

Mr. Glasser, you gave us a figure of 150,000 retired workers and then 125,000 wives and dependents. Did I have that figure correct?

Mr. GLASSER. No, sir; I said about 100,000, and that figure is not a precise figure.

Mr. CURTIS. I am just trying to get the ratio because I was surprised that the ratio of wives and dependents would be less than 150,000, the 100,000. Are some of these retired, if you classified them, dependents themselves, are widows?

Mr. GLASSER. We have a number of widows and we have a number of our retirees who are women.

Mr. CURTIS. And not married?

Mr. GLASSER. And are not married or they are widows, et cetera.

Mr. CURTIS. I was just a little surprised because normally one would think that the number of the primary beneficiaries would be less than the dependents.

Mr. GLASSER. Yes. I should hasten to add that is not a count because we have no reason to count that group. That is an estimate by our actuaries.

Mr. CURTIS. It was just something that I didn't understand. In Mr. Byrnes' interrogation one thing he didn't ask you was what was the cost of the program that is set up, the annual cost, or is that a figure that can't be revealed?

Mr. GLASSER. It isn't a matter that it can't be revealed. Until these benefits are fully operative it will not be possible to cost them out precisely.

Mr. CURTIS. It would be very helpful to this committee, because we have been trying to figure out how realistic our estimates might be, just to have a sample here of what, say, the first premium under this amounts to, if we cover 700,000 potential with 150,000 actual, with the potential dependents.

Mr. GLASSER. I can't give you those figures and, if I were able to give them to you I would mislead you because the figures are for the total population. We do not have separate costs for our retirees. The retiree is part of the population mix and therefore the premiums paid are premiums for the total population covered.

Mr. CURTIS. You mean the 700,000 includes for dependents?

Mr. GLASSER. That is right. Therefore, that figure would not be representative of the retirees.

Mr. SCHNEEBELI. Will you yield?

Mr. CURTIS. Yes.

Mr. SCHNEEBELI. In rebuttal to your demands it would seem to me that General Motors must have given an estimate of the annual cost that these additional demands would amount to. What were the estimates given in these discussions?

Mr. GLASSER. Again it depends on what we are talking about.

Mr. SCHNEEBELI. The additional benefits to people over 65, just this one area. They must have given you a reaction of some sort, that it costs so much to do this. How much?

Mr. GLASSER. You can quite properly hypothesize on their reaction, but the figure would not be correct. I cannot quote a figure because again, in the first place, we were not asking for new coverage for workers over 65. We were asking for extension of the present coverage, and again the rates are quoted and the costs are estimated on covering the entire population of workers, including retirees.

In other words, there was not, as part of the discussion, "How much will it cost just to cover you over 65?" The principle of over 65 had been incorporated in contracts years earlier.

Mr. CURTIS. I see your point. In other words, there was some coverage for these people over 65 to some degree and of course this covers a person if something happens to him at 50.

Mr. GLASSER. That is right.

Mr. CURTIS. They just don't use 65 as a mean figure whenever they do it.

Mr. GLASSER. That is right.

Mr. CURTIS. Then on the next question I was going to ask you—really I can't get anywhere either. I was wondering first whether the companies have done any funding in this thing in their own accounting system, but you wouldn't be able to figure that either, and also how this might be geared to the cash-benefit pension plans, and this I guess is a part of that, isn't it?

Mr. GLASSER. The pension program is a funded program and it is an actuarilly funded program and of course there are reserves. The companies pay for the insurance on a pay-as-you-go basis, the health insurance.

Mr. CURTIS. Well, the health insurance isn't funded though.

Mr. GLASSER. No, sir; it is not, except as long as you raise the question, with a couple of exceptions as a result of the legislation you sponsored a couple of years ago, we have a couple of companies where for retirees we do merge the hospital-surgical-medical with the——

Mr. CURTIS. I hope, regardless of what happens here, that that principle continues, because I think by funding these you really are paying for this during the working and earnings years and it is available on the retirement.

Just one point here. I can understand why some of the larger companies seem to be supporting this particular bill because right now under the pension program this, in effect, is being paid for by money that otherwise would come to the Government in the way of corporate income tax, because this is a permissible deduction from corporate income tax. So what we are doing really in H.R. 1 is shifting this portion from the corporate income tax over to the payroll tax. This is the thing that makes me wonder about the wisdom of it in light of the problem that I think exists in the percent of payroll that the payroll tax has now reached. Not just OASDI, but workmen's compensation and unemployment insurance are also based upon payroll taxes, and I merely pose this for any comments that you would like to make.

I can see what you are figuring, that you will shift this part over to the payroll tax all right, but then you are going to not then use that which would otherwise be paid in the corporate income tax for building your cash benefits, but this does shift a big portion over onto payroll tax which now at least is being paid for through, in effect, the corporate income tax.

Mr. CRUIKSHANK. The employer's part of the tax under H.R. 1 is also a cost item that is recognized in the income tax.

Mr. CURTIS. That is payroll tax. It relates to how much their payroll is, and I submit that of course the payroll tax in the long run is a consumer tax. It has to be passed on, but it is a tax on jobs.

A machine to replace a hundred men bears no tax, but you certainly have the payroll tax applying to the 100 jobs and the wages that you pay the 100 men. That is the observation I am making and why many economists have pointed out that there is a danger point in how much you load on to the payroll tax.

I am very happy to receive the testimony of Mr. Cohen that they have been in consultation with the Council of Economic Advisers of the President and the economists in the Treasury Department on that and, if I am not misquoting them, they said one of the reasons they have cut back on some of these benefits in H.R. 1, the very question that Mr. Mills has raised on the 18-year-old children, is because they did recognize that there is a danger point.

Secretary Ribicoff, when he was Secretary of HEW, said we couldn't get beyond 10 percent of payroll, in his judgment, at any rate, without endangering these other systems that are based presently on the payroll tax.

Mr. CRUIKSHANK. You can meet a very large part of that, of course, by raising the tax base.

Mr. CURTIS. But it remains a payroll tax.

Mr. CRUIKSHANK. Yes.

Mr. CURTIS. I don't care what you do about the base. In fact, that can get even more dangerous, I would submit, because again here you have the most regressive tax in our bundle of taxes.

Mr. CRUIKSHANK. I would dispute that categorically. It is not the most regressive. A sales tax is the most regressive.

Mr. CURTIS. To carry the dialog a little bit further just to give you the reason I say it is the most regressive, I say it because it hits the income derived only from wages, no income from capital gains or investments, or anything else, and it hits only the lower portion of wages up to whatever your figure is, $5,600.

Furthermore, there is no deduction for the number of dependents. A bachelor pays exactly the same that a person with six kids pays. I agree that the sales tax is a regressive tax too, but not to this extent because the wealthier people with more income spend more and to that extent is progressive, particularly the sales tax where we eliminate food, and most sales taxes do, so I would say that I think that my statement is quite true, that this is our most regressive Federal tax that we have.

I am not trying to give epithets. I am trying to be descriptive of what the tax is. There is another point I would like to ask information on, but I doubt if we can get it because the data you did give us about the extent of these company plans was quite limited.

However, I am very interested in not just what the situation is in 1964. I want to see how fast we are moving, and in this field of health care, particularly for the aged, there has been more movement in the past 10 or 15 years than almost any activity in our society.

You gave the figures—I think I wrote them down here—in this sample that you mentioned in Ohio, taking the 1961–62 in the winter, of 20 percent of your smaller corporations, 31 percent of those hiring 250 to 500, and 44 percent of those over 500.

I would like to get some idea, if we could, of what has happened since then to see if these percentages have gone up and also to take a look at what was the situation in 1951, because I suspect those percentage figures were much lower.

We do know the national figures, something like 25 percent of older people who had no coverage at all in health insurance back 10 years ago, and today it is over 60 percent and for all people the figures today are around 78 percent and 10 years ago around 60 percent, so it is important for us to know, if we can, whether this is evening off or whether this is something that is continuing to grow.

Do you have any estimates on that?

Mr. CRUIKSHANK. We can't give you precise data down to the third decimal point of course.

Mr. CURTIS. I know. I didn't ask that.

Mr. CRUIKSHANK. First on the Ohio figures, I would call your attention to the fact that these are plans and not individuals, and that in many of the plants that have plans, a small proportion of the individuals working in the enterprise are eligible for the benefits.

This area of coverage has not been growing near as fast as it is claimed.

Mr. CURTIS. Mr. Cruikshank, I don't know what is claimed. I am not trying to claim anything.

Mr. CRUIKSHANK. I didn't say you were claiming it. I simply said it has been claimed that it is growing very rapidly and all you have to do is just let it go and it will solve the whole problem. You don't need the percentage down to the last decimal point to know that this isn't true, that the growth has been slow in quantity and it has been far slower in quality, that even those people who do have some coverage have a miserably inadequate coverage. We know enough about it to know that there is a great unmet problem here.

I don't have to know what the weather bureau would tell me is the actual average of the temperature in Nome, Alaska, for the last 60 years to know that it is darn cold up there; if I go up there in the wintertime I need to be prepared for cold weather.

We have all the information we need to know that there is a great unmet problem here and if we wait for another 10 or 15 years, we can wait and let a lot of people suffer in the meantime while we are waiting for that last decimal point of information.

Mr. CURTIS. Mr. Cruikshank, that last remark I resent. No one is waiting for people to suffer and you have no claim to any greater humanity than anybody else.

Mr. CRUIKSHANK. I had no such inference in mind, Mr. Curtis.

Mr. CURTIS. I won't pursue this any further because obviously you not only don't have the data; you don't care about having it, and you say this doesn't make any difference.

I am trying to find out what the problem is, and I do appreciate the limited data that was given to us and this is helpful, and it would be more helpful, and maybe you can give us some of this information to know what the progress is because sometimes things do grow rapidly and they begin to taper off for reasons, and this is what I was hoping maybe we could get some help on.

Mr. CRUIKSHANK. We do have some information of what has happened, for example, in these 65-plus plans in the States that have experiments there. They are going down. They are going down very rapidly. They are losing their coverage. They are losing ground every day.

Mr. CURTIS. Mr. Cruikshank, you just don't know what you are talking about when you say that, and all I was directing attention to was your own programs and your own pension plans to see if I could find that out.

We have interrogated on these others and have data in respect to them, so all I am directing attention to is what the progress is or lack thereof in this particular field.

Miss BAMBERGER. Mr. Curtis, if I may make an addition on the point of collectively bargained plans——

Mr. CURTIS. Certainly.

Miss BAMBERGER. Quite aside from the extent of actual coverage and what could be expected, there is an inherent limitation to what collective bargaining plans can do.

Mr. CURTIS. In what way?

Miss BAMBERGER. It arises from the fact that no union can ask an employer to pay the retirement benefits for someone who does not establish some eligibility by continuous employment in a particular firm.

Collectively bargained plans by their nature relate to employment in a particular firm. With the kind of mobility we have in employment in our economy today—the mechanism of collective bargaining can't go beyond the individual employer-employee relationship and therefore can't pick up on the people that move from job to job.

Mr. CURTIS. I appreciate that.

Miss BAMBERGER. It is only a Government program that can do that.

Mr. CURTIS. I appreciate what you are saying and I think a lot of what you say has a great deal of merit and one of our great problems today is the vesting of not just these, but of pension plans and the transferability. I do submit that there is a lot that can be done in here in collective bargaining.

I will demonstrate with one area, the telephone companies, which are under the roof of course of the A.T. & T., but there is Southwestern Bell and Pacific Bell. They now have worked out a method of transferring a portion of pension plans and other plans. I think you pointed your finger at an area that we need to develop considerable and I would think it would be possible to get a lot of this into union contracts on a reciprocal basis just as it was done in the sister companies in Bell Telephone, but I appreciate what you are saying and I think what you are directing your remarks to is certainly pertinent and is a severe limitation and I do see the advantage in this one thing of your Government program.

You do correct it with your Government programs. I would only dispute whether it is not possible to develop this kind of flexibility in the private sector.

Mr. CRUIKSHANK. Mr. Curtis, at that point I think it would be relevant to have a report we have here of what the telephone company is actually doing for its retired. May I ask Mr. Lesser?

Mr. CURTIS. Certainly and particularly on this point, of the working out of the reciprocal arrangements when the one person shifts from Southwestern Bell, for example, to Pacific Bell.

Mr. LESSER. As I understand what they are doing in providing health benefits to retired employees: they have two plans, a basic plan and a major medical. The basic plan is available, but the retiree has to pay the full cost of the basic plan. The major medical is also available and the company pays for that, but there is a limit of a lifetime limit of $2,500 for retired employees and their dependents as compared to $15,000 for active employees.

In addition there is a coinsurance feature. The plan only pays 80 percent of expenses.

Mr. CRUIKSHANK. So if they are transferring it they are not transferring very much.

Mr. CURTIS. That hasn't anything to do with that.

Mr. LESSER. No, I am saying that is the health benefit.

Mr. CURTIS. I know it. That is what I am trying to find out. On this subject of transferability, is that amount completely transferred?

Mr. LESSER. Once a person retires of course any insurance to which you are entitled if you are working there, you get. I assume their pension may be transferable or they may have the actual cash pension benefit. They may have vesting after a number of years.

Mr. CURTIS. I was simply directing my remarks to those raised here about this problem of vesting and transferability and pointing out that there can be some of this and I frankly hope that there will be a great deal more of it.

Understandably the companies like to gain loyalty through the process and I dare say the unions aren't averse to that kind of thing either because in the mobility of labor one of our big problems is the fact of the union structure as well as the business structure, in having men shift into different fields of occupation and into different geographical areas, so we have this institutionalism both ways that deter the mobility of labor.

I am not going to question any more in light of the responses that I received, other than to make two points.

One, we have been developing considerable testimony on the duplication and the problem of duplication of health insurance programs. It is recognized to be a very serious problem, something that is raising insurance premium costs considerably. I don't believe it is anywhere near as simple as Mr. Cruikshank's testimony states it to be, and this business of trying to weave in various plans is quite difficult.

The other point, just for the record, is this, and we have had no discussion of it, but this very difficult or very important difference between pensions and insurance against a risk, because the theory is that, like on social security, which is a pension, you can build. Indeed you can, but an insurance for a risk you don't build on. You try to cover the complete risk to the extent, and this is very proper, that even the UAW contracts don't cover the full risk.

Yes; there is more to be done, but once the risk is covered, then we get into this serious problem of duplication which I think is increasingly becoming a difficult problem. Then when the Government gets into this business of trying to put in cash payments and figuring out the costs with that service benefit we run into the problems which this 139-page bill reveals to us. I would have been and will still sometime be happy to discuss some of these problems to get information on that because the experience that you gentlemen have had in the bargaining is of inestimable value in trying to understand it. Thank you, Mr. Chairman.

The CHAIRMAN. Any further questions?

We do appreciate your being here.

Mr. CRUIKSHANK. Mr. Chairman, it is always a privilege to have the opportunity to appear before your committee and we welcome these questions. We trust we were able to shed some light on the problems with which the committee is confronted and I was glad to take advantage of the committee suggestion to bring the experts who deal with this more directly than I do with me. That was our purpose in their coming here and we on their behalf thank you and all of the members of the committee for the courtesy which you always extend us.

The CHAIRMAN. Thank you for coming, and we do appreciate it. You have been very helpful to us.

Without objection the committee will adjourn until 10 o'clock Monday morning.

(Whereupon, at 12:52 p.m., the committee recessed to reconvene at 10 a.m., Monday, February 8, 1965.)

EXECUTIVE SESSION

MEDICAL CARE FOR THE AGED

MONDAY, FEBRUARY 8, 1965

House of Representatives,
Committee on Ways and Means,
Washington, D.C.

The committee met at 10 a.m., pursuant to notice, in the committee hearing room, Longworth Building, Hon. Wilbur D. Mills (chairman), presiding.

The Chairman. The committee will please be in order.

This morning we have Dr. Ward, Dr. Blasingame, Dr. Coleman, and others to meet with us in executive session and to give us the benefit of the thinking of their organization, the American Medical Association.

Dr. Ward, you are the president of the AMA and I assume you are to make the statement.

STATEMENT OF DR. DONOVAN WARD, PRESIDENT; ACCOMPANIED BY DR. F. J. L. BLASINGAME, EXECUTIVE VICE PRESIDENT; DR. FRANK P. COLEMAN, FORMER CHAIRMAN, COUNCIL ON LEGISLATIVE ACTIVITIES; BERNARD P. HARRISON, DIRECTOR, LEGISLATIVE DEPARTMENT; AND PAUL R. M. DONELAN, LEGISLATIVE ATTORNEY, WASHINGTON OFFICE, AMERICAN MEDICAL ASSOCIATION

Dr. Ward. Yes, sir.

The Chairman. Fine. You are recognized, sir. We appreciate having you with us.

Dr. Ward. Thank you. Mr. Chairman and members of the committee, the American Medical Association appreciates the opportunity of appearing before you today. We believe the issue of financing health care for our older citizens is misunderstood by the American public. We favor every inquiry or discussion which may shed more light and understanding on the subject.

I am Dr. Donovan F. Ward, of Dubuque, Iowa, the president of the American Medical Association. I am here to present the views of the medical profession on H.R. 1 and other proposals for financing the health care of the aged with which the committee is familiar. With me are Dr. Francis C. Coleman, of Tampa, Fla., former chairman of the AMA Council on Legislative Activities; Dr. F. J. L. Blasingame, executive vice president of the AMA; Mr. Bernard P.

Harrison, director of our legislative department; and Mr. Paul R. M. Donelan, legislative attorney in our Washington office.

The American Medical Association opposes H.R. 1 as it opposed the same legislation which was rejected by the last two Congresses.

The measure would be unpredictably expensive. It is unnecessary. It would represent a dangerous venture by the Federal Government in the field of health care.

Enactment of this program would impose an unfair burden on the Nation's wage earners and their employers to finance health care benefits for millions of older Americans who are self-supporting, even wealthy, and do not need Government benefits.

Further, Government regulation and control which would be established under this bill is not compatible with good medicine. The availability of medical service to the aged could be contingent upon the availability of tax money and not upon the medical needs of older citizens. With quantity thus restricted, quality would inevitably suffer.

Beyond these points, we are opposed to making older persons Federal wards.

We are opposed to Government undercutting and disrupting the continuing progress of private health insurance and prepayment plans, on which 145 million Americans of all ages today depend for protection from their illness costs.

We are opposed to offering false promises to the unfortunate who do need help. This bill would provide only a fraction of the care necessary in any serious illness, a fact which many of our aged do not realize.

Time today does not permit an extensive repetition of our voluminous arguments against federalized hospital care of the aged which we offered in 1961 and again in 1963 and 1964. Here are the points which merit your most urgent consideration as you evaluate the latest version of this legislation:

The bill is unnecessary. The great majority of Americans over 65 are not poor, ill, and without proper health care. Both the health and the finances of our senior citizens are far better than they have been pictured, and they will be improving constantly in the years ahead. The medical cost problems that do exist among the aged are problems of individuals and not of an entire age group.

The record of this committee contains hundreds of pages of detailed testimony which we have offered at past hearings to support these statements. Much of it comes from the Government's own files. Doubtless you will review these facts and figures in the course of your deliberations.

We believe this record demonstrates that the health and economic condition of the aged has been grossly misrepresented to the American people to secure enactment of H.R. 1 and earlier versions of the bill.

Means already exist for solving the problem: The Nation now has voluntary, flexible programs to provide health care for the aged.

More than half of the over-65 Americans, who are self-supporting, have protected themselves from illness costs through Blue Cross, Blue Shield, and health insurance. It is true that some policies may not be all that we would wish in the extent of coverage they provide, but we submit that the great majority of the plans and policies are providing ample protection for the elderly in meeting this problem.

Health insurance has made phenomenal advances in this country in recent years, and the coverage of the elderly is making the most spectacular growth. Persons over 65 are joining Blue Shield plans, for example, at a rate four times faster than all other age groups combined. Senior citizens are getting the protection they want and need; they are getting it in increasing numbers; in so doing, they are demonstrating their willingness and ability to take care of their own needs when they are financially able to do so.

This fact deals a heavy blow to the argument that the Nation's workers and their employers should pay a compulsory tax to finance Government benefits for the entire aged population.

There has always been universal agreement that those who cannot take care of themselves must receive help. This principle was the basis for the passage in 1960 of the Kerr-Mills Act which makes possible a wide range of health care benefits for all people over 65 who cannot take care of their own needs. Kerr-Mills provides help through Federal-State matching funds. Administration of this assistance is retained by the States and local communities.

All 50 States now have old age assistance programs under Kerr-Mills. Forty States and four other jurisdictions have medical assistance for the aged programs under the act.

The bill would not meet the problems of the needy aged: The restricted benefits in H.R. 1—60 days in a hospital, 60 days in a nursing home, so many units of home health services, some outpatient diagnostic services, et cetera—represent a financial limitation designed to hold the costs of the program down. The patient is the sufferer when the extent of services he receives depends upon financial considerations instead of his illness requirements. It has been estimated that the measure would cover approximately 25 percent of the annual health care expenses of the average person over 65. Where are the needy aged expected to get the other 75 percent?

Government meddling versus quality health care: The foundation of this country's unrivaled system of medical care is the voluntary relationship existing between the patient and his doctor. This would begin to disappear as the Government supplanted the individual as the purchaser of health care, and as the physician's medical judgment collided with regulations promulgated by the Secretary to control the movement of individuals in and out of medical institutions, and the "reasonable costs" for services to be paid those institutions.

The bill would impose a heavy burden on taxpayers and result in a waste of public funds.

H.R. 1, as did its predecessors, provides for increased payroll taxes on workers and employers to pay for benefits for everyone over 65, regardless of financial need. The blow would fall the hardest on those at the low end of the income scale. The $5,600 a year employee would pay as much to support the program as the $56,000 executive.

The AMA opposes this tax on moral as well as practical grounds. There is no justification for compelling young taxpayers and their employers to pay taxes to buy health care for millions of other people simply because they happen to be over 65.

The money they would pay in taxes in their working years would not be set aside for their health care in their own later years. They would pay taxes today for today's beneficiaries. Tomorrow their benefits would be paid by tomorrow's taxpayers. It has been estimated that this bill may cost $35 billion to provide care for today's 18 million older beneficiaries during their lifetimes. Obviously, H.R. 1 would place an enormous mortgage on future generations.

Proponents of this legislation dwell on what they term its "infinitesimal cost." On the contrary, the bill calls for a double tax increase, a raise in the base from $4,800 to $5,600 and a series of raises in the rates over the next several years. We are dealing with a tax increase of major proportions. By 1971, social security taxes will reach 10.4 percent of payroll on the first $5,600, to be shared by worker and employer. And no one knows what the ultimate cost of this program would be as the costs of living rise and the aged population grows.

We have seen a story in the February 1 issue of the St. Louis Globe-Democrat which quotes "an unpublished study by top Government actuaries" and contains some rather ominous information, to state the matter mildly.

According to the Globe-Democrat, the Government actuaries have estimated that the cost of H.R. 1 would reach $3.8 billion a year by 1975, and, further, that the proposed special health care fund would be just about broke by then.

Let me quote two significant paragraphs from the news story:

> By 1975, according to the still secret study, the fund would be down to about $275 million. By 1976 the fund would be empty.
>
> What would happen then, in all probability, is that money would have to be diverted from the regular social security retirement fund to meet the medicare deficits.

With a program resting on such shaky financial supports, can there be any doubt that the Department of HEW would be engaged in a perpetual struggle to hold the lid on costs, and would be repeatedly pleading with Congress to bail out the program with higher payroll taxes?

Approximately one-fifth of today's families do not pay income taxes because their yearly wages are too low. But many of them pay social security taxes which begin at the first dollar of earnings. For them, H.R. 1 would mean a deeper cut in an already small paycheck to finance a benefit for millions of elderly who have already provided for their own health care. Their sacrifice would not be really helping the needy aged. Spending available funds on the nonneedy means the program can offer no more than limited benefits for anyone, even the most destitute.

Other objections: Before turning to other legislation before you, I want to register the medical profession's vigorous opposition to two other specific points in H.R. 1.

The first is the inclusion in the bill of pathologists, radiologists, physiatrists, and anesthesiologists, working in hospitals or outpatient clinics, as among those whose services would be paid for out of Government funds.

These physicians could be subject to Government rules and regulations imposed by the Secretary of Health, Education, and Welfare on hospitals participating in the program.

All physicians must be responsible for their patients to the limit of their competence; they cannot be restricted by decisions of untrained Government employees on what services should and should not be performed in medical facilities.

Further, it should be recognized that the services provided by pathologists, radiologists, psychiatrists, and anesthesiologists are professional medical services; they are not hospital services and do not belong in a bill solely designed to offer hospital benefits.

We also strongly object to the proposal in the bill for compulsory coverage of physicians under social security. In this we are expressing the policy adopted in 1954 by the association's house of delegates, and reiterated at almost every meeting since then.

The arguments for compulsory inclusion of all physicians in the system, regardless of their personal desires, simply cannot be applied to individual members of the medical profession. A self-employed doctor rarely retires when he becomes 65. His concern for his patients and his ability to serve them continues beyond his birthday, and similarly, his patients' needs for his care bear no relationship to a retirement age written into a law.

Surveys on physician retirement have shown the typical physician would be required to pay social security taxes until age 72 before he would receive benefits.

We submit that this section of the pending bill would represent unnecessary and unreasonable action directed at self-employed physicians. We urge the committee to reject it.

H.R. 3727: From the beginning, our involvement in this issue has been deep and unavoidable. We physicians care for the elderly and know their health needs better than anyone else. Too, the miracle of modern medicine has made it possible for the elderly to live many added years and spurred the growth of the over-65 population.

We have pursued for years the goal of finding a means for filling the broad medical needs of older citizens, who need help in financing their health care, while preserving for all Americans the high standards and high quality of our present health care system.

Out of these efforts of the Nation's physicians—during which they examined and rejected scores of tentative proposals—has come a series of recommendations which has found expression in H.R. 3727 and H.R. 3728, introduced by two members of this committee, Representatives A. Sydney Herlong, Jr., of Florida, and Thomas B. Curtis of Missouri, respectively.

I say categorically that this bill could provide more benefits for persons over 65 who need health care and cannot pay for it, and at less cost to taxpayers, than any other measure pending before Congress.

H.R. 3727 would be State administered, as is Kerr-Mills, and it would be financed by State-Federal matching funds.

Utilizing Blue Cross and Blue Shield and health insurance companies as intermediaries, State governments would be authorized to offer the aged a broad spectrum of benefits, including physicians' care, surgical and drug costs, hospital and nursing home charges, diagnostic services, and X-ray and laboratory fees. These are the components which go to make up an individual's total bill for illness.

H.R. 1 would cover only a small portion of these services, as I have noted. It would not cover doctors' services or surgical charges. It would not cover drugs outside the hospital or nursing home. It would offer only a partial answer to any serious illness.

Cost of the wide-ranging protection offered through H.R. 3727 would be borne completely by Government matching funds for those individuals whose incomes fall below minimums set by each State. For those individuals with incomes exceeding the minimum but less than the maximum, the States would pay a part of the cost.

And finally, for those individuals whose incomes exceed maximum State limits, the State would pay nothing. But the bill would offer individuals able to finance their own health care in whole or in part the benefits of an income tax deduction for their insurance payments.

This measure would also encourage family responsibility in providing for the health care needs of the elderly. Younger taxpayers would be permitted an income tax deduction for the cost of hospital insurance purchased in behalf of an aged parent, or other relative, or member of the household, regardless of the amount of other support the older person receives from the taxpayer.

Under H.R. 3727, available resources would be concentrated on bringing aid to those who need it. Millions would not be spent on financing care for the self-supporting and the well-to-do.

The bill also provides for a uniform and simplified eligibility procedure. To qualify for aid, an elderly person would merely certify his income. In this way, older citizens can establish their eligibility for aid before illness strikes and know they are assured of proper care if it becomes needed.

A point of utmost importance in your consideration of this bill is the fact that the system already exists through the Kerr-Mills Act for providing Federal help to the States on a matching basis to assure the aged the health care they need.

By taking advantage of the Kerr-Mills mechanism, H.R. 3727 could be swiftly and conveniently implemented at the National and State levels. It would not be subject to unusual delays while a new, complex Federal program was being placed in operation.

Another point of major importance to Members of Congress and to every working man and woman in the United States, and their employers, is the fact that the Herlong-Curtis plan does not call for a burdensome new payroll tax.

Also under the Herlong-Curtis plan, as under Kerr-Mills, the Federal Government would have no reason to intervene in the practice of medicine. The Secretary of Health, Education, and Welfare, for example, would not have to have "agreements" with hospitals. An elderly patient would not be limited to seeking care in only those institutions eligible by law or under the Secretary's regulations to participate in the Federal program. Protected by his insurance policy, his freedom of choice of doctor, hospital, or nursing home would remain the same as it always has been.

Let me emphasize again, Federal controls under H.R. 1—inescapable under a vast new program directed from Washington and financed by tax funds—are not compatible with good medicine. Federal regulation cannot be mixed with medicine without diluting the quality of medical care.

Mr. Chairman and members of this committee, I do not exaggerate when I say that decisions to be made here in this room before you conclude your labors will affect the future course of medicine in this country for many years to come.

All of us here recognize that there is soon to be a verdict in this long and wearisome controversy.

Through the years of consideration and discussion of these matters, we have—as we know you have—reached for the answer to the one question: What is best for the United States of America?

We have come before you on many occasions. We have come as physicians. We have come because concern for the health care of our patients, and that includes all Americans, of all ages, in all walks of life, is deeply ingrained in the fiber of our professional lives.

As you proceed with your deliberations, we are prayerfully anxious for you to bear in mind the points we have raised. We urge you to give long and hard and unhurried consideration to the proposals before you, mindful that actions you are asked to take will create a design for the future which cannot be easily changed or reversed.

We again urge you to reject H.R. 1 which would impose on the Nation and its health care system a permanent pattern of taxpaid Government-regulated health care—a pattern inevitably subject to expansion.

In its stead, we urge you to adopt H.R. 3727, representing a sound and reasonable method for solving this pressing problem and at the same time safeguarding the foundation of our health care system which has accomplished so much for mankind in an atmosphere of freedom.

Mr. Chairman, we appreciate the privilege that has been extended to us to appear before the committee today. We will now be happy to attempt to answer any questions you may have.

The Chairman. Dr. Ward, again we thank you for coming to the committee and giving us the benefit of your thinking on this subject. It is true that you testified before the committee in the past, but certainly we thought it appropriate to give you the opportunity of testifying on the new bill, H.R. 1, as well as the bill that you support, which is present before the committee.

We thank you for bring the others with you this morning to the committee.

Dr. Ward. Thank you, sir.

The Chairman. Any questions?

Mr. Karsten. Mr. Chairman.

The Chairman. Mr. Karsten.

Mr. Karsten. Dr. Ward, on page 5 of your statement you say:

> The AMA opposes this tax on moral as well as practical grounds. There is no justification for compelling young taxpayers and their employers to pay taxes to buy health care for millions of other people simply because they happen to be over 65.

I would like to know what you think is immoral about that?

Dr. Ward. We believe that to tax persons for health care because they have had a birthday is not right. We have always taken care of the needy, and we have had taxes for that need; therefore, we do not think it right to place the tax burden upon the young taxpayer to pay for this type of aid because of a birthday instead of need.

Mr. KARSTEN. I might say we have had a program of social security since 1935 that has used this same principle to assist the elderly in purchasing the necessaries of life. Would you regard that program as immoral too?

Dr. WARD. No, sir.

Mr. KARSTEN. What is the difference in the principle?

Dr. WARD. I am sure that this is a matter of income replacement. We are arguing against the need of a new tax.

Mr. KARSTEN. Under social security there is no needs test. We have an employment test, but there is no needs test.

Dr. WARD. Dr. Blasingame?

Dr. BLASINGAME. The policy of the American Medical Association with respect to using tax funds is that they should be limited to those who are in need, regardless of the mechanism of taxation.

Mr. KARSTEN. Right there, would you suggest an amendment to the social security program that we now then distribute these funds only to those who are in actual need?

Dr. BLASINGAME. This particular departure in the social security system you have before you is an effort to purchase services rather than provide a cash benefit.

Mr. KARSTEN. We are talking about the principle, Doctor. You are talking about the items. I wish you would stick to the principle of applying this tax to a younger group for the benefit of an older group when they reach a certain age.

The principle is the thing we are talking about, not the individual items.

Dr. BLASINGAME. We have not opposed at any time the social security system as a whole. We have not opposed the principle of using tax funds in connection with services if they are limited to those in need.

One of the reasons for doing so is the fact that in our society we have traditionally recognized as basic the helping of others to meet need. Extending the use of tax funds into the health care area where need cannot be demonstrated, we think, is not desirable and not in the public interest. It is an unfair burden on many young taxpayers. It has a damaging effect on many which you can label as unwise, or not moral, in using their funds to take care of those who are able to take care of themselves.

Mr. KARSTEN. Would you favor changing the Social Security Act itself to limit the cash benefits to persons who are in need as distinguished from people who may have an income from stocks and bonds or other income?

Dr. BLASINGAME. We have no association policy on that particular point.

Mr. KARSTEN. The principle is the thing I am trying to get clear in my mind because you say there is no justification for compelling young taxpayers and their employers to pay taxes to buy something for millions of other older people simply because they happen to be over 65.

I am just trying to equate your views on the two and I can't seem to get them together.

Dr. Coleman. Congressman, there is one point here that might be applicable. Under the social security program, an individual when he reaches 65 is eligible for benefits. He can draw those benefits provided his income is below a certain level.

Mr. Karsten. He has earned it, has earned income.

Dr. Coleman. There is a recognition here of this concept of need. Otherwise, by the time the individual reached 65 and became eligible for benefits, he could draw his social security benefits regardless of earned income.

In the same context, our statement here suggests that one of the serious deficiencies in H.R. 1 is that by attaining the age of 65, the individual becomes eligible for unlimited benefits under H.R. 1 without regard to need.

The moneys for the 18 million people who would immediately draw benefits under this program are going to come, for the most part, from younger wage earners, men who have families, who are trying to buy their own homes or their own automobiles, et cetera. Dr. Ward was simply trying to make the point that there might be a question of morality in taking from a young man who has responsibility to his family and using his moneys to buy health care for those who don't need help.

Mr. Karsten. I might say under the Social Security Act we do have an employment test. You may regard that as a means test if you wish. Would the incorporation of such a device in H.R. 1 remove the immorality to which you refer on page 5?

Dr. Coleman. I don't think I would be prepared to comment on that, Congressman, because I really haven't thought of it in that context. Our basic objection to H.R. 1 is predicated on the fact that, first, benefits are provided for those who are able to take care of their own needs and, second, that the benefits provided under H.R. 1 are, therefore, curtailed greatly for those who are in need. I think it would be fair to say that adoption of an amendment such as you have suggested would not make the bill acceptable to us.

Mr. Karsten. Thank you very much, Doctor.

The Chairman. Mr. Curtis will inquire.

Mr. Curtis. I think it was in the Report of the Advisory Council on Social Security of 1965, "Status of the Social Security Program and Recommendations for Its Improvement," that it was stated that there was about 3 to 5 percent of older people who had stays in hospitals that extended beyond 60 days.

That is one of the reasons, as I understand it, for this limitation in this bill to 60 days. I am anxious to find out further information as to just what is this average and I was wondering if your association had developed any figures in this area or whether you would know whether this is about right or not.

Dr. Ward. The figure is approximately right.

Dr. Blasingame. Mr. Curtis, we don't have the exact figures with us.

Mr. Curtis. Do you have access to them?

Dr. Blasingame. I believe that we could supply you with figures in this area. The statement you read to the effect that a period of 60 days would cover a high percentage of the people above 65 who require hospitalization is approximately correct, as I remember the information that I have seen.

Mr. Curtis. Incidentally, the record will be open for a while to supply data and there will be other data that I am going to ask you questions on. If you can supply it later I would appreciate it. The reason I am directing attention to this is that I think that the greatest social problem we have is this very 3 to 5 percent, those who are subject to what we call a catastrophic illness, where they are in the hospital beyond 60 days. One of the things that disturbs me the most about this bill is that it is not directing attention to the catastrophic illness. It is directing attention to really the more routine kinds of illnesses, which are costly all right, but are not the kind of unfortunate experiences that are always used to illustrate the problem in this area, where a family, even a fairly well-to-do family, can be badly crippled by one of these lingering illnesses that will go on 1 and 2 years. I had asked the Department of Health, Education, and Welfare before what the average medical cost of people over 65 was and I think the figure was $218.

Is Mr. Ball or someone here? Was that the right figure, do you remember, Mr. Ball?

Mr. Ball. I didn't hear the figure, Mr. Curtis.

Mr. Curtis. $218.

Mr. Ball. For people who were not in hospitals. Is that it?

Mr. Curtis. No, no; just the average health cost of older people, an annual cost.

Mr. Ball. Per person?

Mr. Curtis. For older people, whatever it is.

Mr. Ball. I believe, Mr. Curtis, that was the out-of-pocket figure that excluded governmental expenditures for the aged, what the individual had to pay for himself on the average. I think that the figure we used was $208.

Mr. Curtis. In other words, you were excluding the welfare patient, for example.

Mr. Ball. Yes; or veterans, or anything the Government did.

Mr. Curtis. I sought to get a further refinement by excluding from this average figure those illnesses that we properly could term as catastrophic and to get a definition we could use. You could use 60 days in the hospital. I would use something like a $400 deductible on a general medical to identify what the costs are outside of catastrophic experiences.

Has the AMA ever sought to develop data in this area?

Dr. Blasingame. The American Medical Association and the medical profession are very concerned about this particular group and concur in your worry about these particular cases that can be very expensive and very extensive. We feel that the proposed coverage of 60 days—or almost any figure—will be an inadequate approach to the matter.

We would urge that this committee give special attention to this category of the elderly who need help that is expensive. I believe that Dr. Coleman could give you some additional information, if that is agreeable.

Mr. Curtis. You could give it now, or you could supply a statement for the record, giving your definition of what you would regard as a major medical. I have made some suggestions as to how you define it, but then give us some estimate of the incidence, the percentage incidence, of this kind of experience.

In other words, does this occur in one out of a hundred cases or one out of a thousand. What I am seeking to do is to separate out what is ordinary medical expenses of older people which most people can handle, including older people, but separating out the 3 and 5 percent, the very percent that is ignored in this bill, which is the real problem and would be of deep concern to even fairly well-to-do families, to find out what this incidence is, if it is 3 to 5 percent.

Incidentally, the premiums for insurance against catastrophic illness can be quite modest because the occurrence of the catastrophic type is a low percentage. This is data I think that this committee needs to know. It has been very difficult to develop figures in this area, so if the AMA has anything on it I would be anxious to get it.

You have some preliminary remarks you might make on this?

Dr. Coleman. I have a small amount of data, Congressman Curtis, that might be helpful. We will search our files and provide to you any additional information we may have. I would like to quote for your information at this time, however, an excerpt from a report entitled "Hospital Discharges and Length of Stay: Short-Stay Hospitals, United States, 1958–60," the National Health Survey, prepared by the U.S. Public Health Service and published in 1962.

> The U.S. Public Health Service has reported, for example, that 10 percent of the aged account for 39 percent of the total days of hospitalization for this age group. The 10 percent remain hospitalized for 31 days or longer, while the other 90 percent, who account for 62 percent of hospital days, stay considerably less than that. The 10 percent who are long-stay patients also account for about 38 percent of expenditures.

So the figure would be somewhere between 5 and 10 percent but their care represents a significant portion of the expenditures for health care.

Mr. Curtis. The strange thing to me as I understand the theory of the administration in presenting this as a hospital program is, and this is sound as far as it goes, that by taking hospital cost you take one of the major parts of the cost of illness of an older person. This is the administration's attempt to separate this out so that it can be built upon, but in dealing with hospital costs I think they should have carried this theory further to have separated out not the low, short stays in the hospital, which people can afford, but these lengthy illnesses which are the very serious social problem.

In developing these figures I would also like to have whatever data you have, and I think your organization would be the best to have it, of the incidence of catastrophic illness among people under 65.

Are there more lingering illnesses, this catastrophic type, among people under 65 than there are over 65? I have an idea there probably are more of them because if a stroke hit a person age 30 or 40 he would have the stamina to withstand it and stay living, while the person over 65, being in a lesser healthy condition just because of age, would not be able to.

The reason I want to find out is that I suspect we have a real social problem among people under 65, because the real thing is this catastrophic type of illness.

Do you know now what the ratio would be on this between over 65 and under 65? Do you think you could get some figures on that?

Dr. COLEMAN. We will provide you with whatever we have, Congressman.

(The information referred to follows:)

AMERICAN MEDICAL ASSOCIATION,
Chicago, Ill., March 24, 1965.

Hon. WILBUR MILLS,
Chairman, Committee on Ways and Means,
U.S. House of Representatives, Washington, D.C.

DEAR CONGRESSMAN MILLS: The American Medical Association witnesses, Dr. Ward, Dr. Coleman, and Dr. Blasingame, appeared before the Committee on Ways and Means on February 8, 1965, to present the association's comments with respect to the subject of medical care for the aged. The witnesses were asked to supply, if the information was found to be available, data, with respect to the percentage of aged persons who have extended hospital stays, the average medical cost of people over 65, the incidence and average costs of catastrophic illnesses for those over 65 compared to persons under 65, the percentage of hospital beds occupied by "charity" patients over 65, and the American Medical Association's attitude on "review boards."

While we have not been able to develop or accumulate detailed information on all of the foregoing, we hope that the following information will be helpful in the committee's preparation of the record.

The Social Security Bulletin for July 1964 contains an article on the findings of the 1963 survey on the aged. According to the survey, made by the Social Security Administration, 2.3 percent of the aged's hospital stays consisted of 61 days or more while 97.7 percent of the aged's hospital stays were in the category of 60 days or less.

The average medical care costs incurred in 1962 by aged couples was $442. The median cost was $239. Among the unmarried aged, the average cost was about $270, while the median cost for men was $77 and for women $111.

While we can find no recent data as to the incidence and average costs of catastrophic illnesses, a distribution of medical costs incurred by aged couples noted that: 1.8 percent spent $2,500 or more; 9.4 percent spent from $1,000 to $2,499; 44.3 percent spent from $200 to $999; while 44.6 percent spent $199 or less. Data from the national health survey shows the individual 65 and over having average health expenses of $208, the person 45 to 64 with expenses of $191, and the person 15 to 44 with expenses of $144.

We have almost no information with respect to the percentage of hospital beds for those over 65, occupied by charity patients. However, in a survey made by the Kansas City (Mo.) Area Hospital Association on March 25, 1964, it was found that a private voluntary hospital with 100 beds or more would have 2.4 percent of its patients over 65 years of age occupying "welfare" beds. This percentage had decreased from 4.1 percent in 1962.

As to the American Medical Association's attitude on "review boards," I am enclosing a statement of AMA policy adopted by the house of delegates at the 1964 AMA clinical meeting.

I would appreciate having the foregoing included in the record of the committee's hearings covering the date of the appearance of the AMA witnesses.

Sincerely,

F. J. L. BLASINGAME, M.D.

Mr. CURTIS. Here is another question that really should go to the hospitals, although I got this information after they had testified, but I thought maybe your organization could help me on it.

One hospital pointed out to me that their problem under this bill was going to come as a result of the failure of this bill to permit them to charge for an overload which they now charge to the pay beds for a part of the teaching load in the teaching hospital and part of the load of the charity patient.

HEW's response was "Well, we are going to actually relieve all the hospitals of the charity patients over 65 so therefore the situation will be better," and this would seem to be so, except the figure supplied to me by this one hospital was that only 5 percent of their charity beds were occupied by people over 65, while 13 percent of their pay beds were occupied by people over 65.

Therefore, if under this bill they are not permitted to carry an overload for charity patients and teaching to this 13 percent in the pay beds they would have to fill these pay beds with patients whom they could charge in this fashion.

What I am seeking is whether or not this is a peculiar ratio in this particular hospital, or whether or not this is the general situation.

Now let me add one other thing. The data that has been largely supplied to this committee by the American Medical Association and other organizations affiliated with you and other groups on the incidence of age groups who pay their hospital bills reveal that those over 65 do pay their hospital bills better than any other age group in our society.

This data seems to be beyond question, and it is a startling difference. If this is so, then the ratio of 13 percent of pay beds being occupied by people over 65 and only 5 percent of the charity beds being occupied by people over 65 probably is true generally.

Do you have any comments on that or any data that would bear on that?

Dr. COLEMAN. We don't have any specific data with us, Congressman.

Based on my own experience, I think the figures that you have given are approximately correct. The impact upon the fiscal operation of the hospital would depend to a considerable extent upon the regulations that would be developed by the Secretary of Health, Education, and Welfare, to implement the program. As I read the bill, it isn't quite clear to me just how this question of cost would be calculated. For example, in teaching hospitals, if the cost of the teaching programs could not be included in the cost of providing care to the people over 65 who would be receiving benefits under this program, it would create a serious financial problem for the hospital. There is no question about that.

Mr. CURTIS. The testimony, at least up to date, is that they would not be permitted to charge anything for any overload for teaching, and there is even a question about research and development. The testimony was that for research in that sense there might be a charge, but not development. There certainly is not to be any charge for any overload of the charity patients nor would there be any charges for bad debts.

Let me get into another area. A good bit of the bill is devoted to the techniques to be employed when the Department of Health, Education, and Welfare enters into the agreements that the hospitals must make in order to qualify under this plan. It seems to me from reading the bill throughout, and this is as it must be, I think, the basic authority in the event there is a dispute or disagreement on standards or anything else rests in the Department of Health, Education, and Welfare. There is the question of utilization, and I think an emphasis in H.R. 1, to further utilize the techniques of hospital review boards. I wanted to know what the opinion of the medical profession was of these review boards, whether this technique is developing in the way that you like to see it, and what impact there might be on the way in which these review boards are moving by having the Department of Health, Education, and Welfare in effect overseeing these review boards.

Dr. Ward. Dr. Coleman has looked into this subject quite a great deal. Frank, would you like to comment on it further?

Dr. Coleman. Congressman, utilization committees have been recommended by the Joint Commission on Accreditation of Hospitals, of which the American Medical Association is a sponsoring member organization. The utilization committee concept was developed to insure that hospitalization for a given patient would be provided in amounts necessary for the care of his illness, and to insure that there would be no overutilization of the hospital services.

This concept of utilization committees has been recommended by the joint commission for several years. It is not mandatory. I can't tell you how many of the several thousand accredited hospitals have utilization committees. There are quite a number.

As far as I know, these are functioning effectively. They are developed by the medical staff within the medical staff's organizational structure. It is in effect a means of self-policing by the medical staff.

What impact the introduction of this concept under the control of the Secretary of Health, Education, and Welfare would be I am not prepared to say. I believe this would depend somewhat upon the regulations that would be developed to implement the program.

Mr. Curtis. The point has been made, where the hospitals don't have this, that this would be developed, but of course what the standards of a proper review would be ultimately would be in the hands of the Department.

The officials of the Department right now have said that they would in no sense interpose their judgment on medical questions, and of course this is essentially a medical question of how long a person stays. It is probably one of the most delicate problems to handle, and yet I think it is a very fine thing that this has developed because there has been a question of overutilization.

We have the same problem, though, in these agreements with other kinds of service institutions like nursing homes affiliated with hospitals where the determination is made about the time of transferring the patient to this other facility.

Again this is a medical judgment and yet the standards are going to be set out in this bill. The same problem would arise there. The ultimate authority does rest in the Department of Health, Education, and Welfare under the bill. I asked about some other language. The term "customarily charged" runs throughout H.R. 1 as far as what the charges may be and their reasonableness and so forth, and I was somewhat satisfied by the testimony of HEW that its interpretation of the phrase "customarily charged" would not deter innovation.

Maybe it is a play on words, but I don't think it just is. What is the custom of course depends on what has gone before, while innovation by its very definition is not custom. It hasn't been. There was a suggestion that possibly some language could be developed, or maybe just by the legislative history of this bill, that would make it clear that this term "customarily charged" which is used, as I say, throughout the bill would not be a deterrent to innovation.

It has been the innovation in the field of health care that has produced the very problem we have here, I would suggest, that people are now living 10 or 15 years longer, so we have a larger older population. This is all fine, but I worry about legislation of this nature if it would in any way deter or dampen the innovation in the future.

Has your organization or committee looked into these kinds of legislative guidelines and the possibility of the kind of regulations that would be developed around them from the standpoint of future innovation?

Dr. Blasingame. You have touched on a very important point in this bill, Congressman. It has been often said that this type of legislation is designed for hospitals and doesn't affect doctors or medical practice. Such a statement is not true. It will have a profound influence on medical practice.

Medicine is practiced in hospitals by physicians, and other services are more or less incidental to this primary purpose of having a hospital. To establish regulations on the basis of costs at the national level or to establish standards that might be applicable all across the Nation will be extremely troublesome.

There will be a tendency toward a rigidity rather than an opportunity for innovation in such a program. The matter of professional judgment will often, as we indicated in our opening statement, clash with a particular provision of a law, or a regulation, or the judgment of a committee. This type of difference will be rather profound and I believe tend to impair the quality of medical care. The opportunity for judgment in many instances will be shifted from the physician to some other party, whether it be done under the guise of economy, or uniformity, or any other label that is given to the effort.

The innovations of which you have spoken are indeed very important to medical practice in the United States. They might be spoken of as a research in one sense. Suffice it to say, the freedom to act effectively and prudently for a particular patient in a particular hospital at a particular time is very important. This complicated, delicate, important aspect of medical practice can be straitjacketed by regulation, economies, and even by well-intended, highly motivated people.

We are not questioning their motive. We are questioning their technique and system.

Mr. Curtis. I appreciate your stating that because I, too, feel that we are talking about well-intentioned people and people who are interested in improving standards, and so forth. With respect to the Department of Health, Education, and Welfare, their spokesmen from time to time when I have raised this, said, "Well, this goes on now with the Blue Cross negotiations," and I have pointed out there is all the difference in the world between 80 Blue Cross boards dealing on a regional basis with the trustees of hospitals, who will include doctors, and talking back and forth in disagreement on these things and having a national operation, whether it is Blue Cross that is utilized on a national basis or whether it is some other technique, where they are trying to perform the same kind of exchange of views, in a centralized way. It isn't just 80 Blue Cross or Blue Shield boards. Really, the private health insurance companies get into this dialog on costs, and services, and so forth as well. But this discussion is on an equal level that I call the operation of the marketplace. There people well intentioned on both sides are hammering out these problems.

Dr. WARD. Congressman Curtis, I believe that Dr. Coleman may add a little more light to this particular subject.

Dr. COLEMAN. I certainly subscribe, Congressman, to the statement made by Dr. Blasingame. I would simply observe that not too long ago I had the opportunity to visit one of the provinces in Canada where a hospitalization program financed by the Government is in operation. In talking informally with both physicians and people engaged in hospital administration there, I found that their program has resulted in rigidity and in the stifling of initiative in the improvement of the services rendered in the hospital. The mechanism by which this stifling was brought about was a very simple one.

The hospital was supposed to be reimbursed on the basis of its cost, but the cost figures for the following year were based upon the experience of the preceding year. The experience of the hospital was—and this is true in the United States as well—that the costs of operation are going up about 5 or 6 percent per year.

The result, therefore, was that the hospital was operating each year on a budget which was inadequate by 5 or 6 percent. Instead of having the funds available to improve the services they were rendering to patients in the hospital, they were desperately trying to provide the services of the same type they had been providing in the past, under a 5- or 6-percent inadequate budget. Therefore, I agree wholeheartedly with what you say, sir.

Mr. CURTIS. In the flexibility we have today I think the figures are that hospital rooms range from $18 on up to $70. I asked the question whether HEW felt in this kind of a national standards setting they would be able to preserve such a spread.

Maybe that is too big a spread, but their answer was that they thought they could, and I admire them for their feeling this way, but I think by the very nature of things that certainly flexibility, or the variety we can call it, the tailoring, goes on plus this other thing which I think is so vital, innovation is endagered. If we set up a system where innovation is discouraged rather than encouraged, I think that health care for all of us will suffer in the next few decades.

I think you can probably right now improve the standards nationally by settling for what we know. I mean a group of men could sit down right now and say, "Well, if we set these as national standards we can improve the quality of hospitals and medical care right now," and for 5 years we probably would benefit, but I think this is cashing in on our assets. In doing so we would thwart the innovation that was going on and we would pay the penalty in the lack of progress that we would experience 10, 20, 30 years from now.

This is true in so many fields where you always freeze on your design, but there is never any end to research. You sometimes have to freeze on your design in manufacturing or production, but of course in freezing on your design you sacrifice on your future innovation.

This is a system under H.R. 1 where I don't think there is any way of unfreezing this design after you gain the benefits from the momentary upgrading of standards. It look like we will have the Federal Government in here constantly. This is the nature of this program. It is designed to have the Federal Government permanently in this area setting these standards. I think I have explored the major questions that I wanted to with you and if you can help me with any of the data that I have requested I would appreciate it.

The CHAIRMAN. Mr. Watts?

Mr. WATTS. Dr. Ward, I want to address myself to the portion of your statement on page 7, under "Other objections." Am I right in my information and supposition that pathologists, radiologists, physiatrists and anesthesiologists are independent practitioners, pretty much in the same sense that an internist is, or a brain surgeon, or any other type of the medical profession?

Dr. WARD. Yes, sir.

Mr. WATTS. In the event a bill is written, and I am assuming one will be, would it be your thought that those people should be either left out of the bill completely, or should be employees of the hospital, or should have to have a voluntary agreement with the hospital of their own?

In other words, what I am driving at, wouldn't we want to be awfully careful in bringing these people into the bill, to be sure that no hospital, nor the HEW, could by coercion force these people to become a part of the hospital?

Dr. WARD. We believe that they should be left out of the bill entirely.

Mr. WATTS. I understand that.

Dr. WARD. Yes, sir.

Mr. WATTS. But if they were to be put in the bill, are you in agreement with me that there should be such language written in here that there would be no way for anybody to coerce them to become a part of the hospital, and not independent practitioners, except with their own free will agreement?

Dr. WARD. Congressman Watts, I would like to have Dr. Coleman answer that question.

Dr. COLEMAN. As was set forth in Dr. Ward's statement, one of the major criticisms of H.R. 1 is the fact that the services of these physicians are included in the bill. The American Medical Association calls to your attention the fact that the individuals in these fields are physicians, with the same medical education, with the same type of specialty training, that men in other specialty fields have achieved. They have the same obligation to the patients for whom they render services as all other physicians do.

Mr. WATTS. Well, I think you and I are in perfect agreement on that. I think you and I are in perfect agreement they ought to be completely left out of the bill.

Dr. COLEMAN. Right.

Mr. WATTS. But that wasn't my question. I said in the event they were put in the bill—not what you want or what I want, but in the event they are put in the bill—are you in agreement with me they ought to be put in in such a way that it has to be voluntary on their part?

Dr. COLEMAN. Well, Congressman Watts, it is a little difficult for me to answer this question, because we don't believe they should be in the bill.

Mr. WATTS. But if they were going to be in the bill, do you believe they ought to be forced in there, or allowed to go in there on their own?

Dr. Coleman. Well, it would be, I think, reasonable to say, Congressman, that if they had to be in there, that certainly, every safeguard to protect the interests of the patients they serve should be included.

Mr. Watts. In other words, you, then, are in agreement with me that if they have to be in there in any sense at all, you would much rather they would be in there on a voluntary basis than to be forced in.

Dr. Coleman. Well, I would only differ with your statement in one point, Congressman. I would not accept the premise that they would have to be in.

The Chairman. Further questions?

Mr. Ullman. Mr. Chairman.

The Chairman. Mr. Ullman.

Mr. Ullman. Doctor, I had hoped that we would get in this testimony some reference to the specific issues in the bill where doctors would be of great help in the writing of legislation. During the past few days we have had doctors, independent physicians, testifying, item by item and section by section, and I have found their testimony has been very valuable in helping us draft good legislation, and I am only sorry that we must proceed in the writing of this bill without the technical assistance that your organization might have given us.

As far as I am concerned, this opportunity for you to appear was for that purpose. The purpose of these hearings was to get the organization that represents the doctors, to provide us with the best technical advice on the various procedures that are encompassed in this bill. We have been spending a great deal of time, I assure you, in trying to work out the details to get the best possible bill. Let me tell you, we are trying to protect the medical profession in this legislation realizing how you feel, and trying to preserve the doctor-patient relationship.

You people favor the Kerr-Mills approach to the problem. Is that right? And yet you worry about the standards. Certainly it has been your experience, in the operation of Kerr-Mills, State by State, that various public health officials in the various States have had to impose standards, standards far more rigid than is ever proposed in this legislation, that affect the medical profession. When one represents the public interest, obviously, he has to impose standards that will protect the public; and I wonder, on that basis, why you favor the Kerr-Mills approach, which to my mind, at least, is a far more serious step in the direction of socialized medicine than what you could possibly conceive in this program here.

Dr. Blasingame. Congressman Ullman, we regret, if we have left any impression with you, as I gathered from the first part of your comments, that we have not been helpful. The American Medical Association has submitted, I believe, some of the most substantial testimony on this subject, as was documented in Dr. Ward's original statement. For those who want to read and study, the words and guidance and advice are there, and if we have appeared uncooperative, we are sorry. Indeed, we feel we have an obligation to help you from making a serious mistake. We have tried to put it down quite clearly, intensively, concisely, in testimony which we have given before this committee. We are sorry that we have left the impression that we have not tried to be helpful. We are here this morning in the spirit of helpfulness.

This is an area in which you may find some physicians who would have a difference of opinion with that given by our organization. After all, you can expect differences of opinion among physicians, as you do any other body of men. In fact, I am inclined to think that probably the differences are often very vigorously expressed. We are here giving you the combined opinion—and have a number of times—of the American Medical Association, that the general approach of King-Anderson legislation has certain basic defects which the Congress has recognized on previous occasions. These defects are not curable by minor technical assistance. It is on that premise that we are appearing here—with all of the helpfulness that we can give, in the spirit of cooperation, trying to be as cautious as we can, and to be frank and honest with you.

Mr. ULLMAN. Well, Doctor, of course, you have appeared here many times in the past, and this committee is well aware of your organization's philosophical opinions on your approach to the problem.

Dr. BLASINGAME. Medical opinion, sir.

Mr. ULLMAN. All I can say is that in this paper today, you have added nothing to your previous testimony. We are completely aware of your philosophical difference, but I thought it was quite clear in our invitation here, that we weren't going to hear any philosophical arguments, that the purpose of our executive hearings was to get constructive suggestions to improve the program so as to protect to the maximum amount possible the integrity of the medical profession, and to improve the other important aspects of the problem that concerns America. But when you stick to a philosophical approach to the problem, which you have done, then obviously, you haven't contributed to the technical workings of the program in the way that I had hoped you should.

Now, I was a little disturbed about your reference on page 6 to a news story, referred to as an unpublished study by a top Government actuary, in which you quote as authoritative that this fund will be bankrupt. I would merely ask you, do you have any specific information as to where this comes from? Do we know who was involved in this kind of study?

These are serious charges, and you simply don't bandy them around. Do you know where they come from?

Dr. WARD. That was under a byline, and can be checked, and we will be very happy to authenticate that statement for you.

Mr. ULLMAN. I don't think that's necessary, but I would like to ask Mr. Myers if he knows anything about this study, because I think this record should be very clear. If there is some authentic study that would lead to those conclusions, this committee certainly should know about it.

The CHAIRMAN. Mr. Ullman, before he responds, I think it should be clear to all of us that this question of what the situation would be in 1976 was referred to by Mr. Myers some days ago in the executive session of the committee in response to my own questions and other questions of members of the committee, and now Mr. Myers can respond to your inquiry. This was not secret information. This was information that I understand was obtained directly from Mr. Myers.

Mr. Curtis. May I say, Mr. Chairman, I put it in the record, the date of January 28, and Mr. Myers and I had a colloquy, and he explained it quite satisfactorily, to my mind.

The Chairman. It is unfortunate that it was referred to as a secret study, because anything Mr. Myers does is not secret, if we want to know the facts.

Go ahead, Mr. Myers.

Mr. Myers. I think, Mr. Chairman, that you have well explained the situation. The figures were obtained from my office by a representative of the American Medical Association and they were from our worksheets. The figures are published up to 1972 in Actuarial Study No. 59, and it was mentioned in that study that the hospital insurance trust fund would decrease after 1971, so that it would be obvious, I think, to the reader who looked into it thoroughly that the fund would be exhausted at some future time—all of this being under the assumption that earnings base would not increase. Mr. Chairman, as you know, this had been our underlying assumption for our long-range cost estimates previously, although in the discussions with the committee, I agreed that it would be more conservative, as well as reasonable, to make an assumption that the earnings base would remain unchanged at $5,600 for a period of years before moving up later. Accordingly, in that way, it would not be necessary for Congress to be compelled to raise the earnings base solely to maintain the solvency of the hospital insurance trust fund.

The Chairman. This was in connection—if you will yield to me further—with the question of the use of a 25-year projection, rather than a 10-year projection, as you recall it?

Mr. Myers. That is correct, Mr. Chairman.

Mr. Ullman. Well, just so that the record will be clarified further, and you have testified at some length on this subject, what, then, would be your answer to this statement? This committee is not going to pass any legislation that is going to create a bankrupt fund. I am not going to vote for any bill that is going to have an insolvent fund in 1975. If that is the kind of proposal you are bringing before us, I am going to vote against it. On a long-term basis, is this program sound?

Mr. Myers. Yes, Mr. Ullman, I think it can be said in all truth that the program as brought in is on a sound basis, under the assumption that the earnings base will be kept up to date, as it has been more or less in the past. However, to be even more conservative, and even more certain that this result will obtain, I think that, as I said to the committee several days ago, there should be the assumption made that the earnings base will remain unchanged for a period of years. Thus, it is not necessary to rely on this, what I think to be, reasonable assumption that the earnings base will be increased by Congress from time to time. Then I think you would be doubly safe.

Mr. Ullman. You certainly are not going to come before this committee and advocate any kind of program that would lead to this kind of a disasterous conclusion.

Mr. Myers. Yes; that is absolutely right, Mr. Ullman. The new cost estimates that we will make for any proposals the committee will consider will contain the more conservative assumption that the earnings base will not be changed for at least a period of 10 years in the future, which seems most conservative. Under that assumption, of course, somewhat higher financing will be required, as for example, instead of the 0.9 percent combined employer-employee contribution rate that is provided as the ultimate one in the bill, it would be 1 percent. That extra 0.1 percent would be the margin to allow for the earnings base not being kept up to date.

If the earnings base were kept up to date, then that 0.1 percent might not be needed, but you can always decide that later, when you see whether the earnings base actually has been kept up to date by Congress.

Mr. ULLMAN. Thank you, and that's the kind of program that I want to vote for. We must have a program that nobody can say is going to be financially unsound. Thank you, Mr. Myers.

I was going to make a quick reference to the problem of coverage under social security of the medical profession. It seems I get all kinds of mail, letters from doctors, who want to be covered, not because of retirement—and this is all that you refer to in your testimony—but because the program encompasses two very important features that you always forget to mention, as though doctors were never bothered with the problem; one is, the survivorship feature of social security system, which is certainly of great concern to a lot of young practicing physicians, and the second feature is disability. Doctors are no more immune to disability than any other profession. I think these two items have made a lot of young doctors, particularly, very much interested in coverage under social security. You always fail to mention those factors, and I wonder whether you are taking them fully into consideration when you come out each time against coverage under social security.

Mr. DONELAN. Mr. Ullman, I think that what you say is true—that young physicians are concerned—but I don't want to leave the impression that the association hasn't considered these problems. Our reaction has been that a physician who is concerned with disability or survivors' benefits can purchase programs from commercial insurance companies, at a rate that would be more beneficial to him in many respects.

For instance, if you took the maximum family benefit of about $250, a few years ago—and I don't have figures up to date right now, but I think I can get them—a person could purchase a program for $114 a year which would provide immediate coverage—no lag of 18 months, as under social security—and which would pay approximately the same retirement benefit, for a period of 20 years. He would pay the premium for 17 years—not forever, or for as long as he is working under employment. It would be cheaper, from his point of view, to purchase commercial insurance than to come under the social security program.

Mr. ULLMAN. Well, if this is true, these young doctors who contact me would be taking that kind of coverage. The impression I get from these young doctors is that there isn't any way that they can get this kind of coverage with the kind of money that you put into it, and at the time they need it the most, when they are just getting started, they are getting the maximum coverage, and paying for it over the years, whereas, under the other proposal, at the time when they need it the most, they are stuck with the highest premium. I have found a great deal of concern over this among the young practicing physicians.

Mr. Donelan. I am sure that's so, and I think that if there is a fault here, it is that the insurance industry isn't seizing an opportunity.

Mr. Ullman. Thank you.

Dr. Ward. Mr. Chairman?

The Chairman. Yes, Dr. Ward.

Dr. Ward. May I add just a word for the record? That we believe we have brought new material to this committee, in the form of the Herlong-Curtis eldercare bill, H.R. 3727, and as yet, we are not aware of the fact that Congress has passed any legislation on this matter.

The Chairman. All right. Let me, if I may, ask with respect to two matters in the bill, on which I would like your guidance and help.

One has to do with this matter of utilization review, which, of course, involves the whole matter of the best utilization of hospitals and nursing homes.

Do you have any particular suggestion for change in that part of the bill where we refer to the "Utilization Review Committee," and the provisions therein?

Dr. Ward. Well, Mr. Chairman, inasmuch as Dr. Coleman has had hospital experience——

The Chairman. All right, Dr. Coleman.

Dr. Ward. As a pathologist and one who is acquainted with that portion of your question, I will direct your question to him, please.

The Chairman. All right, Dr. Coleman.

Dr. Coleman. Congressman, the American Medical Association endorses the concept of utilization committees as they are currently recommended by the Joint Commission on Accrediation of Hospitals. If the utilization committee were so set up that it would be established and remain under the control of the medical staff——

The Chairman. Of the hospital?

Dr. Coleman. Of the hospital, within its organized structure, using its constitution and bylaws, I don't believe that the medical profession would find any fault with it. If the utilization committee were placed under the control and direction of the Secretary of Health, Education, and Welfare in any way, I think that we would be very much opposed to it. Under those circumstances, it would not be able to carry out the functions for which it was originally developed by the joint commission.

The Chairman. All right.

Dr. Coleman. And this is not a new concept, you see, this has been going on for several years.

The Chairman. Yes, I understand. It is used both by Blue Cross and Blue Shield, isn't it? Blue Cross, at any rate.

Dr. Coleman. Blue Cross has endorsed the concept of utilization committees and so has Blue Shield.

The Chairman. What I mean by that, it is used in connection with their operation, Blue Cross operation, isn't it, right now?

Dr. Coleman. Sir?

The Chairman. The utilization review committee is used as a part of the total Blue Cross operation of hospitals, isn't it? Is that——

Dr. Coleman. In a few States. I can't tell you how many.

The Chairman. All right, what I am trying to get at, where it operates, to your best knowledge, does it operate satisfactorily?

Dr. Coleman. I know of no place where the utilization committee as currently set forth does not operate.

The Chairman. Satisfactorily?

Dr. Coleman. Satisfactorily.

Now, there is one area that would have to be explored. That would be in the small community hospital, with a small medical staff. There you might have to use the county medical society, or a tripartite county society—bringing two or three societies together—but I believe, if left to the local medical profession, it could still be implemented.

The Chairman. Well, the local medical society could establish the committee itself.

Dr. Coleman. Right.

The Chairman. Where there is not such an operation within a small hospital and county, I assume.

Dr. Coleman. Yes, sir.

The Chairman. But it should be done that way.

Dr. Coleman. Yes, sir.

The Chairman. All right. Now, do you have any suggestion with respect to the provision of the bill which requires physicians to certify the medical necessity of services under the bill?

Dr. Coleman. Well, I believe that the question of medical certification is consistent with the procedure that is followed in the Kerr-Mills programs, Congressmen, where any recipient of benefits would have to be certified by a physician. The physician by writing the order for the care of that patient would, in effect, certify each of the services that was provided.

The Chairman. Well, in other words, that provision is perfectly proper in this bill, if such legislation is passed?

Dr. Coleman. The concept of medical certification for medical need is sound.

The Chairman. Fine. Do you have further questions?

Mr. Watts. I did have one question in connection with what I spoke about. Doctor, in addition to a pathologist being included in this bill, along with radiologists, physiatrists, anesthesiologists, is it your thought that these people, as independent practitioners, if they are put under this bill, that it is inescapable that the rest of the medical profession will have to follow the same course?

Dr. Coleman. Congressman, there is no doubt about it. If these men are included, it is inevitable, in our opinion, that the entire medical profession will eventionally be brought within the province of this bill.

Mr. Watts. Do you think possibly that this beginning was made in that direction because the hospitals, themselves, that is, the Hospital Association, has, as I have understood it, had some desire to get their hands on these professions themselves?

Dr. Coleman. I think that would be a fair statement, Congressman.

Dr. Blasingame. Mr. Chairman, I think another item which concerns the committee in connection with this legislation is its overall cost. One advantage of omitting the professional services as part of so-called hospital care would be a matter of cutting the costs of the program. The services of physicians could be paid for by a variety of mechanisms. Some individuals may want to just pay cash, other post-pay, or use insurance mechanism. Where tax funds are used, the Kerr-Mills approach can be utilized. In that way, you may be able to cut down the cost, if you have a problem with the overall expense of this bill.

Mr. WATTS. May I ask one more question?

The CHAIRMAN. Mr. Watts.

Mr. WATTS. I have overheard it said in this committee, and in arguments in favor of this legislation, and with reference to the Kerr-Mills bill, that one of the worst features of the Kerr-Mills bill that this bill is supposed to correct is that under the Kerr-Mills bill, people are required to take the pauper's oath in order to get the benefits. If a person doesn't have any money, is it any worse to take the pauper's oath for a doctor's bill, a nurse's bill, a drug bill, than it is for a hospital bill?

Dr. COLEMAN. Well, Congressman Watts, our statement here endorses strongly the Herlong-Curtis bill, and the Herlong-Curtis bill contains a provision with respect to declaration of income.

Mr. WATTS. I understand you have loosened that up considerably, but I assume that as leaders of the American Medical Association, you have heard the statement made, too, that it is a disgrace, obnoxious, and it is a bad thing for a person in order to get hospitalization to have to take a pauper's oath. Haven't you ever heard that statement?

Dr. COLEMAN. Yes, sir; many times.

Mr. WATTS. Well, is there any difference between taking a pauper's oath to get the doctor's bill paid, than it is to get the hospital bill paid, or the drug bill paid, or the nurse's bill paid? Things that are actually left out of this bill?

In other words, if it hurts a person's feelings to take the pauper's oath to get his hospital bill paid, it wouldn't seem to me that it would hurt it any worse, I mean it would hurt it just as bad, if he had to take the pauper's oath to get his drug bill paid, wouldn't it?

Dr. COLEMAN. Yes.

Mr. WATTS. In other words, it doesn't become a question of whether it hurts to take the pauper's oath, then, it is just to get the hospital bill paid?

The CHAIRMAN. Mr. Collier.

Mr. COLLIER. Mr. Chairman, I wish to comment for the purpose of the record in the light of the colloquy here on the desire of some physicians to participate in the social security program. I took a poll of the physicians in my district a year ago, and 73 percent of them in this poll came back, said they did not wish to participate in the social security program; 17 percent did. These included, of course, public health physicians, and 10 had no opinion. I have yet to receive a single request from a physician in my district asking that he be covered under the social security program.

The CHAIRMAN. Any further questions?

Mr. THOMPSON. Mr. Chairman, not a question but an observation.

The CHAIRMAN. Mr. Thompson.

Mr. THOMPSON. I would like to have been here, when you started, and to have introduced Dr. Blasingame. He is a very distinguished constituent of mine, and has been, as long as I have been in public service. I have always found that of all the doctors I know, he seems to have the best grasp of our problems, political, legislative, and what have you, as well as being a very fine doctor. To the other gentlemen up there at the head table, or the witness table, I might just observe this, as a Representative of Dr. Blasingame's district, that I wish he would get tired of you, and come on back to what he calls the country clinic that bears his name, because we would like to have him back.

However, I might add this: That through the years, I have always been an admirer of Dr. Blasingame. I can't always agree with him, but I have always found him completely reasonable, and I have always enjoyed talking to him.

Dr. BLASINGAME. Mr. Chairman, I should like to take the opportunity to thank the Congressman for his very fine, generous remarks.

The CHAIRMAN. Any further questions?

Mr. Rhodes.

Mr. RHODES. Mr. Chairman, I would like to ask one of the gentlemen how their position with respect to the coverage of physicians conflicts with the statements of the various State medical societies, and I understand that the majority of them have come out in favor of coverage for physicians, including my own State of Pennsylvania, also New York.

Dr. WARD. Well, Congressman, we have had resolutions to that effect before our house of delegates on many occasions, and in each instance, overwhelmingly, it was defeated. By vote in our house of delegates, on numerous occasions, the doctors have shown they do not desire inclusion under social security.

Mr. RHODES. From the information I have received, the majority of those States have come out in favor of coverage for physicians.

Dr. WARD. Sir, our house of delegates is comparable to a House of Congress. Our delegates to our State components are elected primarily at the county medical society level. They are sent to the State medical society meetings with instructions from that county medical society to transact such business as is of interest to them and the profession as a whole.

The State society, in turn, chooses representatives, one representative to the house of delegates of the American Medical Association on a ratio of 1 to 1,000 AMA members, or a major fraction thereof.

Our house of delegates now numbers 234 members, and overwhelmingly in the past, as recently as 2 years ago, the house of delegates voted against inclusion under social security.

Mr. RHODES. I have received considerable mail from physicians, telling me that the AMA did not represent the viewpoint of the majority of physicians on this issue.

Dr. WARD. Sir, our representatives are the grassroot representatives from each constituent component society. They bring and express to their State society and to the AMA the thinking of the physicians in that State which they represent. If we take a vote in our house of delegates, we assume that that vote is indicative of the will of the representatives to that organization. If they have defeated resolutions for the inclusion under social security, we have no other alternative but to accept that mandate from our house of delegates.

Mr. Vanik. Will the gentleman yield?

Mr. Rhodes. Yes.

Mr. Vanik. I wonder if the gentleman could tell us what percentage of physicians licensed to practice in the United States are members of the American Medical Association?

Dr. Ward. Dr. Blasingame could probably answer that better than I.

Dr. Blasingame. Mr. Chairman, the physician population of the United States at the present time is approximately 286,000 physicians; the membership of the American Medical Association, approximately 205,000 physicians. When you take a measurement in point of time, you have to consider that many individual physicians included in the total number of physicians are continuing in their educational processes, interns and residents, and on the other end of the scale of age are those in retirement who withdraw from organizational activities. I would estimate that during any given point of time—the figure would approximate 90 percent participation of medical profession in the United States.

Mr. Rhodes. May I ask, is there any compulsion for membership in the AMA?

Dr. Blasingame. Membership in the American Medical Association, as far as the American Medical Association is concerned, is totally voluntary. Some of the State societies, on their own initiative, have made it mandatory to have AMA membership but not the American Medical Association. As far as its policy is concerned, it is a voluntary organization.

Mr. Rhodes. Sir, I served as a member of a hospital board which removed a member from the staff of physicians because he would not join the medical society. Later, however, he did join, and was reinstated to the staff, and I was wondering whether that is general policy, throughout the country, compulsory membership, in order to serve as a member of a hospital staff?

Dr. Blasingame. It is locally determined.

Mr. Rhodes. I would like to ask a question in regard to your views on the tax burden for the wage earner. I think there is a lot of merit to that position. However, I think there is considerable merit, too, for this legislation on medicare and other improvements in the social security program. You have stated support for the Kerr-Mills bill. We have legislation introduced by some minority members to pay benefits to people over 72 from the general fund. I wonder in view of the fact that there is a heavy burden on the low wage earner, who very often supports social security tax for wealthy people, if you would support legislation for a government contribution in order to put some of this tax burden on the wealthy people, which you say are getting benefits from taxes paid by the low wage earner?

Dr. Blasingame. We have no organizational position on the question you have raised. We have generally felt that it is more equitable to use general revenue for health purposes because the collection of the taxes would be more widely distributed across the economy. We believe that general revenue funds should be used to provide care for those in need.

Mr. Rhodes. That is all, Mr. Chairman.

The CHAIRMAN. Any further questions?

Dr. Coleman?

Dr. COLEMAN. Congressman, would it be appropriate for us to submit additional information to the committee on this question of inclusion of physicians' services in H.R. 1?

The CHAIRMAN. Yes, sir, if you want to. Perfectly proper. Perfectly all right. We would be glad to have it.

(The information to be furnished follows:)

AMA POLICY

At the 1964 AMA clinical meeting in Miami Beach the house of delegates adopted supplementary report F of the board of trustees, "Commission on the Cost of Medical Care." Under section III (the physician) the following statement appears:

"The commission concluded that there exists a tremendous interest on the part of the public and the medical profession in the economics of medical care. Equally apparent was the need to emphasize to the physician the important influence he exercises on the cost of medical care.

"In this connection, the commission recommended that 'the physician be encouraged to be cognizant of costs to the patient without sacrificing quality of care. For example, he could specify the lowest priced drug within a group of brand equivalents, utilize hospital facilities only when necessary, review the hospital's charges to his patients, and guide his patients away from the economic wastes of nostrums and quackery.'

"Professional review mechanisms * * *

"The commission recommends:

"4. Inasmuch as the judicious use of hospital facilities by the public and physicians is essential to the efficient and economic functioning of the prepayment and voluntary health insurance systems, the State and local medical societies should urge and assist the medical staffs of hospitals to form hospital utilization committees."

The CHAIRMAN. Any further questions? If not, gentlemen, we thank you again for coming to the committee. Before the committee adjourns, we have asked Dr. Oscar B. Hunter to be present this morning. Please come forward, Doctor.

Dr. Hunter is a member of the Legislative Committee, College of American Pathologists, and he is past president of the American Blood Banks.

Dr. Hunter made a statement to me earlier about two suggestions he had in connection with the legislation that I wanted the committee to hear.

Dr. Hunter is located in Washington. He operates the Hunter Laboratories here. Most of us have known of his operations, and that of father before him for many, many years.

We are pleased to have you, Dr. Hunter. Could you cover these points, in a few minutes?

STATEMENT OF DR. OSCAR B. HUNTER, JR., MEMBER, LEGISLATIVE COMMITTEE, COLLEGE OF AMERICAN PATHOLOGISTS, AND PAST PRESIDENT, AMERICAN BLOOD BANKS

Dr. HUNTER. Thank you very much, Mr. Chairman and members of the committee. I appreciate this opportunity.

I wish to state at the outset, however, that our position in the College of Pathologists and in the American Association of Blood Banks is no different than as has already been expressed here this morning.

However, there are several technical aspects of this, which Dr. Coleman has also mentioned, that we feel are very poor, but the technical aspect I would like to bring up specifically at this time—and if you will, Mr. Chairman, I would like to submit some data at a later time for the committee's perusal—is a technical problem on blood, which is defined on the Biologics Division of HEW as a biologic, and this is the way it is expressed in this bill H.R. 1.

Under the circumstances, this could have some very far reaching and very devastating effects upon blood banking as we know it today, and blood bank recruitment.

The problem specifically is this: in approximate figures, 10 to 15 percent of the population of hospitals are over 65, but approximately 25 percent of the blood used in this country is by patients over 65. There being about 6 million units of blood used per year, this means that in the neighborhood of 1½ million pints of blood are used by those who are over 65.

Now, what does this mean in the terms of blood banking? It means this: That if blood is paid for, as is stated by this bill, as a biologic, it would mean that his blood would be bought and sold, and as such, its cost in the bill would be, for a million and a half pints of blood, in the neighborhood of $37.5 million which is a sizable item.

This is not the most important feature, however. In my opinion, the problem of recruiting donors would be greatly made more complex, and the increase in the number of so-called commercial blood banks, those who buy and sell blood for profit, would be magnified considerably. Those blood banks that are nonprofit, operating at community level to help the community, would be greatly incapacitated because of the fact that the commercial blood banks would take over, and they would supplant, in due time, these community efforts which are all voluntary, and which do supply blood to the community at no cost. So that I bring this out to you. I would be glad to submit the figures.

As you can see, this would have a very serious effect upon the community efforts which now exist.

The CHAIRMAN. Your suggestion, Dr. Hunter, is that we define out of the word "biologicals" whole blood.

Dr. HUNTER. Yes, sir.

The CHAIRMAN. So that whole blood will not be covered as a part of the cost of this program.

Dr. HUNTER. As a part of the cost of the program, yes, sir.

The CHAIRMAN. As a part of the program.

Dr. HUNTER. Yes, sir.

The CHAIRMAN. All right, I think we understand that suggestion.

Mr. CURTIS. Could I ask on that?

The CHAIRMAN. Before we go on—all right.

Mr. CURTIS. On that one point, this would mean, of course, as I understand the bill, that a hospital or nursing home that wanted to charge for this still could do so.

Dr. HUNTER. Yes, sir.

The CHAIRMAN. Now, Dr. Hunter, in addition to being past president of the American Blood Banks, you are also on the Legislative Committee of the College of American Pathologists, as I understand.

Dr. HUNTER. Yes, sir.

The CHAIRMAN. Has your organization taken a position with respect to the inclusion of pathologists' services in connection with hospital costs?

Dr. HUNTER. Yes, sir; it has.

The CHAIRMAN. What was that position?

Dr. HUNTER. Well, our position is that we feel that we should be excluded from the inclusion in this, just as Dr. Coleman has presented, and if you wish, I am sure that Dr. Buhler, who is here present in the room, would be glad to submit a statement, and I believe he has it.

(The following memorandum was received by the committee:)

COLLEGE OF AMERICAN PATHOLOGISTS,
LEGISLATIVE COMMITTEE,
February 10, 1965.

To: Members of the House Ways and Means Committee, U.S. House of Representatives.
From: Oscar B. Hunter, Jr., M.D.
Subject: Title I of H.R. 1.

I am Dr. Oscar B. Hunter, Jr., a member of the legislative committee of the College of American Patholigists and a past president of the American Association of Blood Banks. I am here to discuss two points in H.R. 1 which I believe the committee would find valuable to have for their consideration. I wish to state in advance that we agree completely with the American Medical Association's stand on H.R. 1, and we are opposed to the inclusion of pathology and the practice of any of the medical specialties in this particular bill for the reasons stated by Dr. Frank Coleman in his presentation.

Specifically, we feel that pathology practiced in the hospital is a medical service and not a hospital service. The billing of pathology services is done entirely for the convenience of the patient on the hospital bill.

The second point that I would like to call to the committee's attention is one which has probably escaped notice to this date. This refers to the matter of blood and the supply of blood for patients over 65 in hospitals.

It may not be a matter which the committee is fully aware of, but by the National Institutes of Health standards blood is classified as a biologic although it is well known that it is a living human tissue which by transfusion is the transfer of living human cells from one person to another.

The medical science of blood banking, which is fundamentally a part of pathology in most hospitals, is carried on by the recruitment of blood donors who come to the blook bank and are bled. The blood is processed and then prepared for transfusion by crossmatching procedures. The recruitment of blood donors is for the most part a voluntary affair. Under H.R. 1 biologics, and therefore blood, would be paid for which means that the blood instead of being recruited from voluntary donors would in due time be recruited from paid donors who would be solicited from all walks of life. Our experience with such donors in the past has not been good primarily because the individual who sells blood for a living is very frequently an individual who is not entirely reliable. In previous testimony before committees of the House and Senate, it has been brought out that these donors are sometimes alcoholics or even dope addicts who very frequently have hepatitis and whose blood therefore is not suitable for transfusion. These people are usually solicited by so-called commercial blood banks who pay $5 for the donor and charged upward of $20 to $25 for a processed bottle of blood.

From the figures of the American Association of Blood Banks, it is estimated that 29 percent of blood transfused is given to patients over 65 years of age. This means that from the approximately 5.5 million units of blood transfused annually in the United States, 1.5 million units are transfused to patients over 65 years of age. The cost of this at $25 a unit to the Government under this plan would then be approximately $37,500,000.

While this cost is of importance, by far the most important consideration is the impact that paying commercial blood banks and so-called "skid row" donors for their blood would reduce the number of voluntary donors who give their blood each year for the benefit of relatives and friends. This voluntary source of blood is unquestionably the best source since these donors are honest, reliable individuals who give reliable answers to questions relative to past diseases or exposure to any infection such as hepatitis.

We therefore believe that it would be preferable to eliminate the payment for blood under this plan if this bill is to be enacted. It is therefore our proposal that the wording of the bill be as follows:

Modify section 1806(a), page 13: Add, "(6) The provision of blood and its derivatives."

Modify section 1806(j), page 25: Add, "The term shall not include blood and its derivatives".

The CHAIRMAN. All right, Dr. Buhler, we would like to have you do so.

STATEMENT OF DR. VICTOR B. BUHLER, PRESIDENT, COLLEGE OF AMERICAN PATHOLOGISTS

Dr. BUHLER. Thank you, Congressman Mills, I am Dr. Buhler of Kansas City, and I presently serve as president of the College of American Pathologists.

The CHAIRMAN. Oh, I didn't realize you were here. If you will submit that statement to us, now your views are in accord with what Dr. Coleman said and what Dr. Hunter has said?

Dr. BUHLER. Yes, sir.

The CHAIRMAN. All right, we would like to have your statement. I regret that we do not have the time this morning to hear it read in full detail.

Dr. BUHLER. We will be very happy to submit it to you, sir.

The CHAIRMAN. And if you will do so, submit enough copies of your statement so that the attorney for the committee can see to it that all the members have a copy to read, as well as to go in the record.

Dr. BUHLER. Thank you.

(The statement to be furnished follows:)

STATEMENT OF THE COLLEGE OF AMERICAN PATHOLOGISTS ON H.R. 1, 89TH CONGRESS

Mr. Chairman and members of the committee, I am Dr. Victor B. Buhler of Kansas City, Mo., president of the College of American Pathologists. I am here to present the views of the medical specialty of pathology on certain aspects of H.R. 1, which is now before you for consideration. With me are Dr. Ernest E. Simard of Salinas, Calif., president-elect of the College of American Pathologists; Dr. Oscar B. Hunter, Jr., of Washington, D.C., a member of the national legislative committee of the college; and Mr. Oliver J. Neibel, Jr., of Chicago, Ill., executive director and general counsel of the college.

Pathologists are particularly concerned over the legislation now before you for consideration. Our concern over and above that of the rest of medicine lies in the fact that the professional services of pathologists (as well as anesthesiologists, radiologists, and physiatrists) are included as a hospital service in the language of the bill.

Pathologists, radiologists, anesthesiologists, and physiatrists are all doctors of medicine and their professional practice is the practice of medicine. This has consistently been the official position of the American Medical Association's House of Delegates and its judicial council. As physicians, doctors practicing these specialties are governed by the same tenets and standards of conduct which apply to all physicians.

Thus, the American Medical Association's house of delegates in June 1950 adopted the following policy statement.

"* * * The practice of anesthesiology, pathology, physical medicine, and radiology are an integral part of the practice of medicine in the same category as the practice of surgery, internal medicine, or any other designated field of medicine.

"A physician should not dispose of his professional attainments or services to any hospital, corporation, or lay body by whatever name called or however organized under terms or conditions which permit the sale of the services of that physician by such agency for a fee. * * *"

This policy of the house of delegates was reaffirmed by the house in 1963 and again as recently as June 1964. It has also become an integral part of the interpretation of the "Principles of Medical Ethics" (1955 edition, ch. VII, sec. 5).

Accordingly, it is abundantly clear that American medicine considers the four medical specialties included under the King-Anderson bill as an integral part of medicine. It is estimated that these four specialties encompass between 10 and 15 percent of the physicians currently in practice. This is a substantial number of doctors whose services are classified as hospital services under the impending legislation.

We cannot underestimate the internal professional stress which would be created if H.R. 1 and S. 1 were enacted in their present form. At least one State—Iowa—by decision of its supreme court, has declared that the services rendered by the four specialties are medical services and cannot be sold by the hospital, but must be purveyed and billed the same as the services of other doctors. Furthermore, enactment of this legislation would tend to isolate more than 10 percent of this country's doctors from their professional brethren. These men who have devoted long years of training following graduation from medical school would, insofar as those over 65 are concerned, be classified as something less than a full-fledged doctor. The result that this would inevitably have on attracting physicians to enter these specialties will be discussed later in this memorandum.

Proponents of King-Anderson type legislation have emphasized that its enactment would not interfere with a patient's free choice of his physician and his services. Wisely, in our opinion, they have recognized that the physician-patient relationship is an integral part of good medicine and should not be tampered with by legislative fiat.

Where services of pathologists, radiologists, anesthesiologists, and physiatrists are provided as hospital services, the patient has automatically lost both his own free choice and that of his doctor in selecting the individual who will consult with his doctor regarding matters of medical expertise of these four named specialists as these medical services would then be provided as a hospital service—not a medical service of the physician involved.

By the same token, the pathologist, radiologist, anesthesiologist, or physiatrist would now find his fees fixed according to a reimbursable cost formula formulated by the hospital and the Federal Government. These physicians will thus be unable to determine the fees for the professional services which they provide and would be denied the right to bill their patient for this service according to the manner and custom of their other professional colleagues.

We have prepared and have attached to this statement certain proposed amendments to H.R. 1 which delete the professional services of pathologists, radiologists, anesthesiologists, and physiatrists from inclusion in the bill by the mechanism of deleting inpatient and outpatient diagnostic services as a benefit provided by legislation.

Accurate cost estimates of the total King-Anderson program in its present form are difficult, if not impossible, to obtain. Accepting any given set of cost estimates proposed to date, it is obvious that the Federal Government is embarking on a most expensive and costly program. Equally obvious is that the deletion of diagnostic benefits from the bill would accomplish substantial dollar savings and bring the program into an area within the ambit of fiscal soundness and responsibility.

We have attempted to obtain accurate data on what percentage of the patient's hospital bill is attributed to laboratory services and diagnostic X-ray. In September 1962 the Kansas Hospital Association published a manual of uniform charging principles and appendix E of that publication presented the following information based on the annual income of 39 of the Kansas hospitals for fiscal years ending in 1961:

	Dollars	Percent
Total income	$17,433,997	100.0
Laboratory income	1,984,177	11.4
Radiology	1,401,653	8.0

Following is data released on October 31, 1964, on a restricted basis by Hospital Administration Services of the American Hospital Association based on the first 3 months of 1964 for 695 representative hospitals of varying bed capacities.

Beds	Number of hospitals	Laboratory as a percent of revenue	X-ray as a percent of revenue
49 and under	105	11.7	10.7
50 to 74	137	10.9	10.1
75 to 99	66	10.8	9.5
100 to 149	132	11.6	9.4
150 to 199	58	11.3	9.9
200 to 299	87	11.5	9.4
300 to 399	61	11.5	9.5
400 and over	49	11.3	9.1
Total	695		

Also of interest are statistics obtained from the California Blue Shield plan for the 12 months ending in September 1964. These data indicate that payments for inpatient and outpatient X-ray and laboratory equal 36 percent of the total hospital benefit dollars paid by California Physician Services Corp. during this 12-month period.

Accordingly, based on the Kansas and American hospital surveys, approximately 19 to 21 percent of the hospital care dollars paid by patients goes for laboratory and X-ray. Taking into account the California Physicians Service data the elimination of diagnostic benefits from H.R. 1 would result in savings of between 19 and 36 percent of the now projected cost of the total hospital and outpatient diagnostic program.

Additionally, it should be recognized that the inclusion of some physician services under the King-Anderson bill will make control of the expansion of the program to include other physician services much more difficult. It is almost axiomatic that if some doctors are going to be paid by the Federal Government for professional services rendered to those over 65, while other physicians rendering service to the same patient are not going to be so paid, this will result in tremendous pressure to expand the program to include all physician services.

The professional services of pathologists, radiologists, anesthesiologists, and physiatrists are more appropriately covered—along with other physician services—in the Kerr-Mills program which can be expanded to Federal and State Governments to take care of all those individuals over 65 who need Government help to pay their doctors' bills.

It has been variously estimated that between 60 and 80 percent of all laboratory examinations take place in physicians' offices. Radiologists estimate that 27 percent of diagnostic radiology takes place in doctors' offices. The effect of including the professional services of these two specialties in a bill for hospital care will be to divert patients over 65 from doctors' offices to hospitals (so as to avoid personal obligations for payment for radiologists' and pathologists' services), a diversion which would adversely affect both the cost and the quality of laboratory and X-ray service provided. In addition, it would be highly discriminatory to those physicians who are not pathologists or radiologists who within their own area of expertise perform diagnostc X-ray and laboratory services for their own patients in their own offices.

The four specialties named in the bill are having extreme difficulty under present rather favorable circumstances to attract medical school graduates to these specialties. All 4 are in the bottom 10 of percentage of positions filled in existing resident training programs. Physical medicine (physiatry) is only able to fill 47 percent of its available resident training positions. Pathology is only able to fill 59 percent, anethesiology 68 percent, and radiology 76 percent.

If the services of the physicians practicing these specialties were to be classified as hospital services under a Federal "insurance" program for those over 65, the resulting impact on the number entering these specialties would be extremely disastrous. No doctor wants to be less than a doctor. Including these physicians as a part of the services provided by hospitals will certainly deter the young doctor from qualifying for one of these important specialities. Thus, the all-important patient of the future would undoubtedly suffer from the lack of highly trained medical specialists performing the all-important medical services included within the scope of the professional practice of pathology, radiology, anesthesiology, and physiatry.

On behalf of over 20,000 doctors of medicine, whose professional services would become hospital services were H.R. 1 to be enacted in its present form, I urge your thoughtful elimination from H.R. 1 of all diagnostic benefits and your rejection of the concept that professional services of physicians under any circumstances are hospital services.

The College of American Pathologists is deeply grateful for the opportunity afforded us to submit this statement in executive session of the Committee on Ways and Means and for the opportunity to make our views known to you on this most important and vital legislation.

The following changes will be necessary to amend H.R. 1 and S. 1 so as to delete the inclusion of the medical services of pathology, radiology, anesthesiology, and physiatry:

1. Page 2, table of contents, title XVIII, from section 1806 delete paragraph (i) and appropriately renumber paragraphs (j) thru (n) as paragraphs (i) thru (m).
2. Page 6, amend lines 1 and 2 so as to delete the words "and outpatient hospital diagnostic services" and at line 1 insert the word "and" between the words "care" and "home".
3. Page 6, line 16, change the second word "by" to the word "in".
4. Page 8, lines 6 and 7, eliminate the words "or outpatient hospital diagnostic services" and at line 6 insert the word "or" between the words "care" and "home".
5. Page 9, lines 9, 10, and 11, insert the word "and" between the words "care" and "home" and delete the words "and outpatient hospital and diagnostic services".
6. Page 9, strike the "(1)" at line 22.
7. Page 10, strike lines 1–11.
8. Page 11, line 2, strike "(and 30-day periods)".
9. Page 13, lines 17 and 18, strike the words "or services".
10. Page 13, lines 24 and 25, strike the words "except services provided in the field of pathology, radiology, physiatry, or anes-"
11. Page 14, line 1, strike "thesiology, and".
12. Page 16, line 14, strike the word "by" and replace with the word "in".
13. Page 24, strike lines 20–25.
14. Page 25, strike lines 1 through 14.
15. Page 30, lines 22–24, place a period after the word "treatment" in line 22 and strike the words "or that in patient diag-" at line 22 plus lines 23 and 24.
16. Page 30, strike line 25.
17. Page 31, strike lines 1 and 2.
18. Page 31, at line 3 change paragraph "(C)" to "(B)" and at line 13 change "(D)" to "(C)".
19. Page 35, lines 12 and 13, strike the words "or outpatient hospital diagnostic services".
20. Page 36, line 5, place the word "or" between the words "care" and "home".
21. Page 36, line 6, strike the words "or outpatient hospital diagnostic services".
22. Page 39, strike lines 15–17.
23. Page 43, line 19, place the word "or" between the words "care" and "home" and strike the final word "or".
24. Page 43, line 20, strike the words "outpatient hospital diagnostic services,".
25. Page 62, line 15, place the word "and" between the words "care" and "home" and strike the words ", and outpatient hospital diagnostic".
26. Page 62, line 16, strike the word "services".
27. Page 66, line 25, place the word "or" between the words "care" and "home" and strike the words ", or outpatient diagnostic".
28. Page 67, line 1, strike the word "services".

The CHAIRMAN. Fine. Any questions?

If not, we thank you again, and Dr. Hunter, we thank you, sir, for remaining with us.

Dr. WARD. Chairman Mills and members of the committee, we thank you for the privilege of being here, and for the courtesies extended to us, today. Thank you.

The CHAIRMAN. We are always glad to see you.

Without objection, the committee will adjourn until 2 o'clock this afternoon.

(Whereupon, at 12:05 p.m., the committee recessed, to reconvene at 2 p.m. the same day.)

AFTERNOON SESSION

(The committee reconvened at 2:30 p.m., Hon. Wilbur D. Mills, chairman of the committee, presiding.)

The CHAIRMAN. The committee will please be in order.

This afternoon we want to hear from the Hospital Council of the National Capital Area, Mr. Morgan, and any others that you want with you there at the table.

Mr. Morgan, are you making the statement?

STATEMENT OF CARROLL MORGAN, PRESIDENT; ACCOMPANIED BY RICHARD M. LOUGHERY, ADMINISTRATOR, WASHINGTON HOSPITAL CENTER; AND WILLIAM M. BUCHER, EXECUTIVE DIRECTOR, HOSPITAL COUNCIL OF THE NATIONAL CAPITAL AREA

Mr. MORGAN. Yes, sir.

Mr. Chairman and members of the committee, my name is Carroll Morgan. I am president of the Hospital Council of the National Capital Area and I am also president of the Suburban Hospital. This is a nonprofit hospital in Bethesda, Md.

With your permission I will make the following statement.

The CHAIRMAN. All right, sir.

Mr. MORGAN. It is our understanding that the committee's invitation to us is based upon your desire to learn firsthand the effects of the "reasonable cost" reimbursement portion of the legislation on hospitals in the District of Columbia and environs. We are pleased to discuss this wording with you and to comment on questions you may have.

As both public trustees and professional hospital administrators we enthusiastically support the interest evidenced by Congress and the administration in the support of the continued expansion of health care services and facilities to the public. Our concern is that Government, the hospital industry, and the profession work effectively together as one toward our common goal.

Our apprehension is as to the diverse effect of the use of the words "reasonable cost" (found in H.R. 1 on p. 32, line 23) on nonprofit community hospital financing. I call your attention to existing Federal Goverment programs and their application of reasonableness to hospital reimbursement.

1. Medical care for military dependents program: There exists two different methods of cost reimbursement under this program including:

(*a*) The lower of 97 percent of charges, 106 percent of selected costs or a ceiling dollar maximum.

(*b*) Full billings for services rendered.

2. Crippled children's program: Under this program, the State (District of Columbia) cannot pay more than rates utilized under its welfare patient hospitalization contracts. Local District of Columbia hospitals receive $34 per diem with costs in excess of $42.

3. Federal employees hospitalization program: Similar to item 1 above, reasonableness ranges from less than 100 percent of costs to upward to 130 percent of costs.

4. District of Columbia medical charities program: In this program Members of Congress sit as our Federal City legislature. Each year requests are made for more adequate and reasonable reimbursement for services furnished indigent wards of the District government. We find historic unwillingness to permit the District government to pay community hospitals their full costs for services purchased. The current application of reasonable reimbursement is $34 per diem as against upward of $45 of costs and $5 per outpatient visit as against upward of $8 of costs.

The application of discounts to all the above federally controlled hospitalization programs has been of considerable discouragement to those of us responsible for financing hospital care in the community.

Our position is that the sick patient who carries indemnity insurance or who can afford to pay cash for his hospital care should not involuntarily become a philanthropist and charged that additional amount necessary because of such discounts.

From the operational level, each additional discounted program forces our charges to become more unrelated to actual costs—the reverse of that which we have endeavored to achieve over the years. This is our concern. We believe that Congress will not purposely perpetuate such inequity with the full knowledge of its effect.

We are here and we will be glad to try to answer questions. I have with me Mr. Richard Loughery, on my right, who is administrator of the Washington Hospital Center, and Mr. William Bucher, who is our executive director of the hospital council, on the left.

The CHAIRMAN. And you are Mr. Carroll Morgan, president of the hospital council.

Mr. MORGAN. Yes, sir.

The CHAIRMAN. All right. Any questions of these gentlemen? Mr. Keogh?

Mr. KEOGH. No questions.

The CHAIRMAN. Mr. Betts.

Mr. BETTS. How do these formulas here—1, 2, 3, and 4—that you have recited compare with the reasonable cost formula of H.R. 1? Are they anything like it?

Mr. BUCHER. The legislation which I have studied does not go into any detail as far as what is included in costs, what is either reasonable or full cost.

Mr. BETTS. Then in the programs you have given do they use the words "reasonable cost" or are the formulas set out more specifically?

Mr. BUCHER. No, sir. These programs that we have set forth here were historically, we were told, to be based on reasonable cost.

Mr. BETTS. Why were you told? Was it in the bill? For instance, under No. 1, medical care for military dependents program, you set forth a formula for payment of your charges. Was that in a program that used the words "reasonable cost" or was the formula set out specifically?

Mr. LOUGHERY. I think the word "reasonable" is one that has just come about during the course of the years because whenever there is new legislation in which a third party is involved the providers ask, "Well, how are we to be paid and how much are we to be paid?" and the term has grown.

"Well, what is a reasonable amount, what is your reasonable cost?" I think perhaps we are not gun shy.

Mr. BETTS. In the four instances you have given the words "reasonable cost" weren't used.

Mr. LOUGHERY. I don't know what it was in the legislation. It is what we have been told as to the administration. Perhaps it is in an administrative regulation.

Mr. BETTS. Do you know whether or not it was an administrative regulation?

Mr. LOUGHERY. I do not know.

Mr. BETTS. What do you understand now to be reasonable cost under H.R. 1? Would it be any one of these four formulas you have given here?

Mr. LOUGHERY. I have the impression, sir, that reasonable cost under H.R. 1 might rule out the cost of medical education, might rule out the cost of operating an outpatient clinic, an emergency room, nursing education, and other facilities.

Mr. BETTS. Research?

Mr. LOUGHERY. Well, I wouldn't object to research personally because research is not related that directly to patient care.

Mr. BETTS. If these items that you mentioned are ruled out what will be the effect upon your hospitals?

Mr. LOUGHERY. The effect on the hospital will be that those people who are not covered under this legislation, who are not covered under these four examples, who are not covered under local Blue Cross, will be paying a great deal more than their own proportionate share.

Mr. BETTS. In other words, they will be financing for part of the other patients, is that correct?

Mr. LOUGHERY. Yes, sir.

Mr. BETTS. Are you referring to just the regular patients that take care of their own expenses?

Mr. LOUGHERY. The man who pays his bill with cash or the man who is covered by a type of indemnity insurance.

Mr. BETTS. In your presentation here you listed four formulas apparently, but they are Government formulas. How about, say, Blue Cross and the private insurance agencies? What is the cost formula used in their programs?

Mr. LOUGHERY. The Blue Cross program is one that is arranged by contractual negotiation.

Mr. BETTS. How does that fit into the reasonable cost formula?

Mr. LOUGHERY. It doesn't.

Mr. BETTS. In what way doesn't it?

Mr. LOUGHERY. In that, if you will note, under the medical care for military dependents program the original legislation provided that it could go one of the two ways set out here. Negotiation within the District of Columbia ended up with the hospitals not getting what the hospitals feel to be reasonable coverage.

Mr. Bucher, would you care to amplify that?

Mr. BUCHER. I just call your attention to example one here. In specific answer to your question, the Blue Cross reimbursement is set forth under item 1(a) and 1(b) it would be I believe all other commercial carriers or insurance carriers permitted to provide services as programed.

Mr. Betts. In other words, all the other carriers pay the going rate in the hospital? Is that what you are saying?

Mr. Bucher. Full charges, sir.

Mr. Betts. So that their patients and the patients who pay cash are helping to pay for the discounts that have been under Blue Cross and under Government programs, is that correct?

Mr. Bucher. The difference would be upward to a 30-percent difference. We don't believe that this is equitable at all.

Mr. Betts. I don't understand. Thirty percent of what?

Mr. Bucher. In order for the hospital to recoup enough funds to offset its losses and coverage for care, as Mr. Loughery pointed out, it must adjust its charges upward above cost, and in any program such as the military dependents which is based on changes. These patients and the Government supporting these patients might be paying upward to 130 percent of actual cost, or full cost.

Mr. Betts. You are testifying on behalf of the National Capital area hospitals, is that it?

Mr. Bucher. Yes, sir.

Mr. Betts. Is what you are saying generally true over the country?

Mr. Bucher. Yes, sir, it would be correct, through the country. I think it would vary in accordance with the degree that a hospital might have endowment funds to overcome the discount relationship. Our hospitals in the District area are not privileged to have the endowment levels that some of the other industrial communities have.

Mr. Betts. Could you give us the difference between the Blue Cross charge and the charge of the ordinary private carrier?

Mr. Bucher. The charge to Blue Cross is based upon any one of the three methods as set forth in the statement under 1(a). During the year the hospitals would receive an interim reimbursement based on its charges. At the end of the year the determination is made as to what constitutes cost, what constitutes cost for services which Blue Cross buys. Also at the end of the year a ceiling maximum payment is determined. The hospitals in our case would receive the lesser of either of these three amounts which may well amount in any one case to less than 100 percent of costs.

Mr. Betts. Can you give that in relation to percentage of difference between that and the private carrier?

Mr. Bucher. I believe the closest I can come to that is on page 2, item 3, where I suggest the difference may be upward to 30 percent between these two different types of payments.

Mr. Morgan. I wonder if I may put a word in here. I have been in the financial business all my life and maybe I can get it over a little better. Say, I myself had no insurance, and Mr. Loughery has the military insurance, and Mr. Bucher happens to have one of the bigger carriers throughout the United States.

Mr. Betts. You are talking about three different hospitals now.

Mr. Morgan. No; all individuals. I don't carry any insurance, so I would pay the full hospital bill, say $42 a day. If Mr. Loughery was one of the military dependents he would get a discount. He is going to be discounted because it comes from Federal funds, and Mr. Bucher is under GHI, the local fund.

Due to a contract starting 15 years or so ago they are still getting a discount, or we are giving him discount from the original basis. We have gotten that closer to what it used to be and we are in negotiation at this time to bring it up, because we feel that everybody should pay the same, that I as an individual who goes in with my money should pay no more and no less than anybody else.

Does that clear it up a little more?

Mr. VANIK. Will the gentleman yield at that point?

Mr. BETTS. Yes.

Mr. VANIK. You overlook, however, the certainty of payment which you have under the Government's program and you also overlook the fact that against the private user of the hospital you must assess against that patient the cost of collection, which probably is distributed over your entire account now.

Is not the cost of collection of accounts an item that has to be reckoned with?

Mr. BUCHER. Yes. This indeed is a cost of doing business.

Mr. VANIK. What would the cost of insuring of collecting accounts be worth? It varies somewhere between 6 and 10 percent, doesn't it?

Mr. BUCHER. It depends, yes, sir. I think your point, however, as to whether or not we collect 100 percent on these cases which are underwritten by Blue Cross is erroneous because in a good number of cases where the patients receive uncovered services it's absolutely impossible for us to go after them after they have run out of insurance.

We do experience a bad debt loss on patients insured by this third party.

Mr. VANIK. From the standpoint of total revenues you have a tremendous part of your revenue which is assured and guaranteed under the Government's contribution program.

Mr. BETTS. However, aren't bad debts included as part of the cost that the patient who pays the cash has to pay for?

Mr. MORGAN. That is right. That is included as part of our cost. I would think that the average hospital certainly in the metropolitan area does not have any record of anywhere near as high as 8 or 10 percent on the sources. I think this is closer to 6 percent.

Mr. VANIK. I said 6 to 10 percent.

Mr. LOUGHERY. The bad debt losses in the hospital I represent are 3.7 percent. The allowance to third party agencies, such as the District of Columbia, Group Hospitalization, and the Community Chest, is 11 percent.

Mr. BETTS. Am I right, though, that bad debts are included as part of the cost to determine what the cash patient pays for?

Mr. LOUGHERY. From cash payments, yes, sir; but not from contractual patients.

Mr. BETTS. No; but all the bad debts are lumped together as part of the cost that the cash patient pays for, so it takes care of all the other bad debts, doesn't it?

Mr. LOUGHERY. I just want to be sure there is an understanding of the difference between bad debt and an allowance. An allowance is one in which you know you are not going to get the full reimbursement because of the contract. The bad debt is one in which you anticipate getting full payment and don't because the individual doesn't choose to pay his bill or for some other reason.

In a survey that we did some 6 or 7 years ago we found that the percentage of bad debts originating from Blue Cross patients was approximately the same as the percentage of bad debts originating from indemnity-type insurance patients. Is this not correct?

Mr. BUCHER. Yes.

Mr. BETTS. Is there much discrepancy in room rates in hospitals in the Washington area?

Mr. LOUGHERY. By "discrepancy" you mean a variation?

Mr. BETTS. Yes; variation.

Mr. LOUGHERY. There probably is a variation of 10 to 15 percent. This is my knowledge, and Mr. Bucher sees this thing daily. Perhaps he should answer it.

Mr. BETTS. Take Georgetown, George Washington, and so forth.

Mr. BUCHER. I don't know the exact percentage of variances in charges. There, however, is considerable variance in costs because we have the full range of community hospital services here from a small hospital that provides minimal care to the large hospital that has a complete round of all services necessary.

Mr. BETTS. Are there many of the smaller hospitals that you mentioned?

Mr. BUCHER. No, sir; there are not too many in this area, but as you probably recall from earlier testimony, the largest number of hospitals throughout the Nation are in the smaller category, less than 150 beds, I believe.

Mr. BETTS. I think that is all.

The CHAIRMAN. Mr. Morgan, let me inquire first, if I may, what is the Hospital Council of the National Capital Area, Inc.? Is that a trade association of hospitals or what is its function? What does it do?

Mr. MORGAN. Its function started in 1948 and it was to get together and talk over our problems and try to get good ideas that one hospital knew about and the other didn't know about and exchange ideas.

Then from that we have gone into a pretty good sized and efficient organization where at all times we try to solve problems at the hospital level of the group where such as a hospital can call in and ask do you have this problem or that problem.

We meet 4 to 6 times a year as our trustees, and then administrators and subcommittees meet probably 10 or 12 times a year on each particular subject or level.

The CHAIRMAN. Would it be comparable to a State hospital association, or is it different from a State hospital association? What I am getting at it is, you don't operate any hospitals as such?

Mr. BUCHER. Our program is practically identical to the State association. I serve also as the executive secretary in the District of Columbia Hospital Association as well as the executive director of the hospital council.

The CHAIRMAN. But this is very closely related to an ordinary State hospital association that might exist in my State or any other State.

Mr. BUCHER. Yes, sir.

Mr. MORGAN. We have one in Maryland. My hospital is in Maryland. We have one and everything is just the same.

The CHAIRMAN. For the capital area, not just the District.

Mr. MORGAN. Yes, sir.

The CHAIRMAN. I understood that. You have listed here on the first page of your presentation the member hospitals. These are the hospitals that are members of your council?

Mr. BUCHER. Correct.

The CHAIRMAN. Are they all nonprofit hospitals?

Mr. BUCHER. The ones that are proprietary are Circle Terrace over in Arlington—Freedmen's, of course, is a governmental—and Mead Dental is another small proprietary organization.

The rest of these hospitals are either university, or church, or nonprofit.

The CHAIRMAN. Do you assist them in raising moneys to make up deficits that they may incur? Do you do that as a council?

Mr. BUCHER. No, sir; not as a community drive. However, we do participate actively both staffwise and with the hospital staff in the areawide UGF campaign.

The CHAIRMAN. I was just asking for information because I wanted to know what the council services were to the hospitals. Let me see if I can understand. I am sure Mr. Bitts did, but some of the responses that you gave left me with some doubt in my mind as to really what you are saying.

You say over here on page 2:

> The application of discounts to all the above federally controlled hospitalization programs has been of considerable discouragement to those of us responsible for financing hospital care in the community.

Is it your fear that this program envisioned in H.R. 1 would add another federally controlled hospitalization program that would give rise to the same problems of discouragement and so on that the others have?

Mr. BUCHER. Correct; yes, sir.

The CHAIRMAN. What would you have us do in this legislation to eliminate that fear?

Mr. LOUGHERY. Pay full cost, sir.

The CHAIRMAN. Pay full cost.

Mr. LOUGHERY. Full cost. What I have said I think is probably very difficult for you as Representatives in Congress and your staffs to put into writing, because it is difficult to say full cost which would apply to a large hospital with a complete full range of all services and still not be overpaying some other hospital that didn't have this range of services.

The Government must protect its funds and we are in sympathy with this obviously. However, full costs must be attained from third-party sponsors. The patient who pays his own bill cannot continue to pay for more and more patients whose bills are discounted.

When you have a school of nursing, a medical education training program for residents, interns, graduate physicians or laboratory technicians, and X-ray technicians, to take care of *x* thousands of people in the outpatient clinics and in the emergency room, these costs are real and they must be met.

As far as I am personally concerned, reasonable cost would include all of these items. Whatever the hospital's program is has to be paid for, and everyone who uses it must pay his proportionate share.

The CHAIRMAN. Would you determine the full cost with respect to the total of your hospital load, or would you do it with respect to that portion of your hospital load which is 65 years of age and over?

Mr. LOUGHERY. Total load, sir. I have yet to see the accountant who is that good. We have a unit. We know about how many of our patients are 65 and above, but when they are mixed on certain of the services—let's say that this is a medical unit in which medical diseases are normally housed—how much time is going to be spent on how many of the patients by the nurses, by the housekeeping people, by the laundry, by the residents, by the interns? This is accounting that I couldn't trust. It would be inappropriate to separate out the cost of those 65 and over because they have the same range of diseases as do people under 65.

The CHAIRMAN. Is it your experience that the average per diem cost of taking care of a person with disease A at age 65 or older is more or less than the average per diem cost of taking care of a patient with disease A at say 35, 30, or 25 years of age?

Mr. LOUGHERY. I don't believe I can answer that, sir, with an empirical answer.

The CHAIRMAN. Say that a patient 65 years of age or older has to have operation A and you have at the same time a patient 25 years of age having operation A. Is it your experience that the per diem costs of both are about the same?

Mr. LOUGHERY. This depends so much on the physician and how soon he sends the patient home. A 65-year-old patient can have an appendectomy and I at 45 can have an appendectomy.

The surgeon would normally send us both home after 5 days.

The CHAIRMAN. Regardless of your age?

Mr. LOUGHERY. Yes. It depends on what my recovery is and what that other patient's recovery is.

The CHAIRMAN. I thought we had had testimony before the committee on numerous occasions that it might take a younger person 7 days to recover from an operation and an older person as long as 14 days to recover from the same operation. Is that not generally the case?

Mr. LOUGHERY. This can be. I am not a physician. I cannot testify to it.

The CHAIRMAN. I know, but you are a hospital administrator.

Mr. LOUGHERY. Yes, sir.

The CHAIRMAN. You don't know from your experience then whether it is true or not?

Mr. LOUGHERY. No, sir, because I haven't studied it in that depth.

Mr. MORGAN. Medically it makes a great difference in what physical condition your patients come in. I happen to be 65. But I could come in in very fine shape and somebody could come in that is 45 and physically nowhere in as good condition as I was in and I would probably get out before he would.

The CHAIRMAN. That is true. You could think of a situation like that, but the statistics that we have before the committee are that 9 percent of our population is made up of people 65 years of age and older, and yet they have utilization of about 27 percent, the 91 percent under 65 utilizing the hospitals the remainder of the time. It would seem to me that if those statistics are correct we could, generally speaking, expect the older person to stay in the hospital longer.

My point is this. If an older person having incurred operation A must stay in the hospital longer than the younger person having incurred operation A, then the per diem cost of the older person would be less, because the total cost would be averaged out over a longer number of days.

If we followed your suggestion and looked to actual costs across the board, including people of all ages, we may be paying an average per diem cost for people over 65 years of age using the hospital for 14 days the rate that might be more equivalent to a 7-day use, and if that is the case we would be paying considerably more than full costs even of taking care of that older person.

That is the reason I asked you the question whether you would divide up hospital population between those 65 years of age and older and those under 65.

Mr. Bucher. In reply to this let me state that the use of an overall average per patient-day is only one of a number of methods of reimbursement.

You say if you pay specifically for only the costs, no matter how you derive them, of the patients over 65 in a hospital environment for several days. The question then comes up that is pertinent to the four programs we have already outlined to you: Who then is responsible to pick up the remaining losses or remaining discounts and what have you?

This would then fall upon all patients less than 65, would it not?

The Chairman. If we don't pay you in this program what your reasonable costs are attributable to the care of these people, then either you go broke or go out and get some money from charitable sources, or else you charge somebody else more than their cost.

I am not arguing with you about that point, but what I am concerned about is that if we follow your recommendation of full cost and you charge against us on the per diem basis the cost of hospitalization of people of all ages, we will be giving you more than the full cost for those people who are included under this program.

I think you can see my point.

Mr. Loughery. I can see what you are saying, sir, but I honestly cannot agree with you.

The Chairman. Then it must be that the people of all ages having the same identical hospitalization on the average use the same number of hospital days.

Mr. Loughery. We have done certain little studies to try to advise our physicians when they are seeing patients in their offices so that they can give the patient an estimate of how much his bill is going to be. We take 25 of the more common diseases and find out what the average is for a gall bladder. This is fairly common.

This ranges from 7 to 10 days. In our experience the age factor hasn't been the important thing. It is the general physical condition of the patient.

The Chairman. I can understand that. It would make no difference what age he is; if he is brought in in a very weakened condition it would take him longer to get over it than one who was brought in, regardless of his age, in a fairly strong physical condition. I see that.

Mr. Loughery. If someone plus 65 is just in a straight debilitated, rundown condition, then he is going to stay longer than if he was not debilitated.

The Chairman. I think really, if I may say so, and I want Mr. Ball to come to the desk here and I want to ask him some questions, maybe there is some degree of misunderstanding as to what is intended. Perhaps the language itself is not as clear as it should be.

Mr. Ball, you heard the statement now. You understand what motivates the gentlemen in making their statements, coming to the committee and presenting these views. Their experience apparently with some programs has been such that they have not been reimbursed what they consider to be not only full costs, but not even reasonable costs in connection with the operation of these institutions, and I am sure you do not, and neither do we, want to create a situation where we add more to their burdens in the operation of hospitals. If you would pick up and discuss the matter I would appreciate it.

Mr. Ball. Yes, Mr. Chairman. I think the witnesses have made some really very excellent points about the way the four programs that they describe presently operate and I am in 100 percent sympathy with their concern that this program of hospital insurance for the aged not operate the way they have described these other four programs operating.

I think we really have learned something, Mr. Chairman, from the experience with other programs such as these four, and that is one of the major reasons why we are proposing that this bill contain in the legislative language a direction that the reasonable cost criterion be used.

Under the first one, the medical care for military dependents program, there is no such language in the legislation and there are no uniform national policies about reimbursement. It is left up to the Blue Cross plans in each State to try to get the best deal that they can for the military. And in many instances, I know that they actually are getting a better deal for their own Blue Cross subscribers than they are for the Government, under that program. In the same way, of course, in the indemnity area of that program there is no direction to pay full costs.

Under the crippled children's program, the second one that they mentioned, you have a Federal-State arrangement where again there is no direction to the State that they have to use reasonable costs. If they negotiate a lower amount, then that is considered proper under the law.

The Chairman. Which gives rise to the thought that we bandied around in the room already, that if we do something more in these programs we might require the payment of reasonable costs with respect to not only the crippled children's program, but any new children's program we start or even the MAA program or the OAA programs, any programs in which we participate.

We have discussed that, gentlemen, in the committee, so that we would eliminate what we recognize is one of the discouraging factors of the hospital of having to share in this kind of business.

Mr. Ball. Yes, I think it is very important, Mr. Chairman, that these programs do not result in the residual private paying patient being, in effect, stuck with the costs of other people. And if we can get all these programs on a true cost basis each one will be treated fairly.

The CHAIRMAN. That is right.

Mr. BALL. On the Federal employees' hospitalization program, we have, as you know, several different kinds of options for the Federal employees, including one under Blue Cross. But there is nothing in the law that says it has to be reasonable cost.

The amount of the reimbursement can be negotiated at less than cost. On the other hand, as you see from their figure of 130 percent, the indemnity program, which is paying charges, may go well over the costs. That is one reason why we think it is important to follow the principle of paying on costs rather than on charges in this bill.

Then, finally, on the charity program, as is true of many charity programs, reimbursement is less than cost. The intention we have is not only an administrative intent. The language of the bill would require the administering agency to pay reasonable costs. It is not up to the administering agency to decide to pay something less than cost.

Specifically, what differences do you get from the phrase "reasonable costs" as against the phrase "full costs?" I think there is one important distinction. I might say first that we have testified before, Mr. Chairman, that the intent here is to follow as a general guide the principles of the American Hospital Association for cost reimbursement and one day last week we introduced those principles into the record.

The CHAIRMAN. You would not do less than that? That is what you are saying?

Mr. BALL. I don't think of any instances where we would pay less than required by those principles, Mr. Chairman, but it is true that the bill requires us to consult on the principles, but it doesn't say if it is necessary to follow them in every detail.

Mr. CHAIRMAN. I understand.

Mr. BALL. On the matter of teaching and nursing education costs, the principles of the American Hospital Association, which we would be following completely in this instance, is that a reasonable share of the education and training costs should be borne by the third party.

We would not, on the other hand, expect to include general research nor would we expect to include, as we have indicated earlier bad debts or charitable cases. As you have suggested, Mr. Chairman, it is quite likely that the true costs for the group of older patients covered by the bill would tend on a per diem basis to be somewhat lower than for all patients in a hospital. This is because the high first day costs, which are typically the highest in a period of hospitalization, would be averaged over a larger period. Partly because of the types of diseases that older people have and partly because of their somewhat slower average recovery rate they stay in the hospital longer. Thus those higher first day costs would be averaged over a longer period. This is not a matter of the difference between full costs and reasonable costs. This is a result that would obtain in any approach to determining costs for older people as against the whole population.

The CHAIRMAN. The important thing, Mr. Ball, with respect to the determination of what we have in mind as reasonable costs is we are not looking at the individual isolated case.

The CHAIRMAN. We are looking at a group of patients cared for, say, by the Washington Hospital Center, aren't we?

Mr. BALL. Yes.

The CHAIRMAN. And with respect to one individual we may be paying more. With respect to another we may be paying less, but on the average we are supposed to be paying the costs that are involved in the care of all of that number and for which we assume this responsibility.

Mr. BALL. And I would add, Mr. Chairman, that in just about all instances the term "reasonable costs" as interpreted through the application of the American Hospital Association principles would be exactly the same as full costs. The reason that we think it is, nevertheless, desirable to have the qualifying word "reasonable" there is for quite unusual situations. If I may just read the comment from the principles themselves I think you will see why it is desirable to have the word "reasonable" in it.

The last one of the principles of the American Hospital Association ends with the comment:

> If a hospital's cost departs substantially from other hospitals of similar size, scope of services, and utilization—

All those things have to be the same—

> then maximum reimbursement may be established through agreement reached between third party purchasers and hospitals.

If you had just the phrase "full costs" in I would presume that we would be required to pay whatever those costs turned out to be, even though a particular institution which was rendering the same service, had the same kind of cases, the same utilization, was substantially out of line with all other hospitals in the area. Actually, the qualifying word "reasonable" is in the bill to prevent that kind of unusual situation—the situation where a single hospital is out of line not because of reasonable difference in services, for example, the differences between a teaching hospital and nonteaching hospital, and where the difference is not explainable in terms of utilization of services, but only in terms of efficiency, unusually poor financial management, or something of that sort. This is the main point of difference between "full costs" and "reasonable costs."

The CHAIRMAN. All right. Do you have anything you gentlemen want to say at this point?

Mr. BUCHER. Only one quick comment: Hospitals are required to take a number of patients for which there exists no reimbursement whatsoever. Patients who do not qualify under any of the community's programs, both Federal and local, or in this area, are not covered for one reason or another by the local united giver's fund campaign income. These require the hospital to write off the entire cost of hospitalization.

And it is a requirement of our application that if we remove a group of patients 65 and over away from the full paying status, who are now—these patients as well as all paying patients are—being charged, we pick up a part of the losses involved we will not be able to continue to provide this service, which the field says is good medicine. These patients should receive full care wherever, whatever hospital they should go to.

We don't feel that these patients should be transferred to one indigent hospital in one area, and this is a basic part of our concern for adequacy in reimbursement.

Thank you.

The CHAIRMAN. All right. Mr. Ball.

Mr. BALL. Mr. Chairman, on that point, it is true that in accordance with the principles of reimbursement of the American Hospital Association, we would not be participating in the payments of free care for people below age 65. On the other hand, I think the payment of full and reasonable costs for people over 65 as distinct from the present situation, where in many hospitals there is quite a difference between the welfare reimbursement for the over-65 patients and the true costs for them or between the reimbursement provided by programs such as are described in this opening statement and full costs. Our making that up for the over-65 group would be very helpful for the general financial situation of the hospital, therefore, although I don't think that we could go to the point of directly participating in free care to people not covered by the bill, our providing full reimbursement of costs for over-65 patients, far from being harmful, will be helpful in meeting this other problem.

The CHAIRMAN. Well, I would think, Mr. Ball, that you would have to confine your thoughts in such a way because this program is not to be used to pay for what we are discussing as reasonable costs for people over 65, and then add to it 10 percent, or whatever the percentage might be, to take care of cases involving people under 65; because the cost of doing this that we are thinking about is as heavy as it is, any additional costs that we would have to assume of that nature would make it even more expensive, would they not?

Mr. BALL. Yes, Mr. Chairman, and as you suggested a little earlier, the extension of the medical assistance programs to other categories and the inclusion of a principle of reasonable cost reimbursement to assistance programs generally would seem to me to be the proper way to meet another major part of the problem arising from paying less than reasonable costs for charity cases.

The CHAIRMAN. Well, these gentlemen, I am sure, are aware of the provisions of H.R. 3699, which is the other part of the administration's total hospital program. If that program is enacted, along with H.R. 1, and we do require reasonable costs to be paid in connection with these cases that we are referring to in H.R. 3699, I would think much of what you are talking about would be eliminated, would it not?

Mr. MORGAN. We would hope so, sir.

The CHAIRMAN. Well, I would like your judgment on it, because I think it would. That is the whole purpose of it. To get it back to where we are not causing the paying patient or the person carrying hospital insurance to have to pay in a part of the costs of charitable cases, that would be covered under this H.R. 3699.

Mr. LOUGHERY. If the interpretation—you see, sometimes it seems to us, and perhaps this is a little unfair, but it seems to us that there is a little slippage between the expression of the lawmakers and the people who administer the laws.

By the time it gets down to us, it has changed a wee bit.

The CHAIRMAN. Well, that is even true of the legislative branch. We pass some bills one year in one Congress, and after it has been in effect a year or two, our own opinion of what we pass, sometimes varies.

Mr. Loughery. The thing we are worried most about is that third party payors should not take advantage of a man who pays his own bill. And obviously, this represents a very slight segment of the population which will be greater as years go by.

We would like to keep from squeezing the man who still uses indemnity insurance, or pays cash. Otherwise, he won't be able to get care.

The Chairman. We don't want his expenses to be increased either. You can understand that. It would be most unfortunate if we found that as a result of the establishing this program and taxing people generally for it, that we had also added an additional cost to them in addition to the tax, in the form of some insurance premium.

That would be most unfortunate, and certainly, that is what you are calling our attention to. You are suggesting that we protect them against it. We certainly appreciate your taking time to do so. It is a very important matter.

Are there any further questions?

Mrs. Griffiths. Mr. Chairman.

The Chairman. Mrs. Griffiths.

Mrs. Griffiths. I would like to ask, Mr. Chairman, would you say that your council does or does not have more people under medical care for military dependents than the average group of hospitals? Do you have any way of knowing?

Mr. Bucher. Because of the large number of Federal hospitals in this area, it is awfully hard to make any comparison with any other area. I think it would really have to depend upon what the other metropolitan area, what their available Federal hospitals were in that area.

When this legislation was first enacted, as you recall, it was wide open, and all Federal, all military dependents could use civilian facilities. I think this lasted about 18 months, until they tightened up on it.

During that 18 months' time, we had a good bit of business from military dependents in this area, but because of the nonutilization of Federal facilities in this particular area this additional administrative regulation came around, limiting or reducing to practically nil, with the exception, I think, of obstetrical care, and certain other types of cases, the military hospitals could not handle.

They were shipped to our hospitals, but this is a tremendous drop.

Mrs. Griffiths. What percentage of charity patients do you handle?

Mr. Bucher. I can't give a statement generally applicable throughout all the 24 hospitals, because it does range from hospitals that have absolutely no charity at all to a hospital such as the Washington Hospital Center. Mr. Loughery will get that.

Mr. Loughery. We have established a figure of 15 percent.

Mrs. Griffiths. Is this higher or less high?

Mr. Loughery. I could not answer you, ma'am. We have never checked. This was determined by board of trustee policy, before the hospital was opened.

Mrs. GRIFFITHS. And who pays for the charity? Paying patients?

Mr. LOUGHERY. The fellow who pays his bill.

Mrs. GRIFFITHS. His own. Is no part of this drawn from the military dependents program, or any Blue Cross services?

Mr. LOUGHERY. It can't be put on military dependents because they are not paying their own now.

Mrs. GRIFFITHS. How about Blue Cross?

Mr. LOUGHERY. And Blue Cross is not paying its own, and Crippled Children is not paying its own, nor the District of Columbia Government patient; this leaves a smaller and smaller and smaller number.

Mrs. GRIFFITHS. Why does not Blue Cross pay its own?

Mr. LOUGHERY. This goes back to some old contractual relationships started many years ago.

Mr. MORGAN. 1948. Since that time, we have been negotiating with them, every 2 or 3 years, and the matter is in negotiation again now, trying to bring them up to what we would call "reasonable costs."

Mr. LOUGHERY. For instance, ma'am, we had distributed two pay raises to employees during the last two and a half years. It became necessary to raise room rates to cover this expense.

We needed an average increase in income of $2 across the board per day. We must establish the charge at $4, because of various third party agencies we know will not pay full cost. This is necessary to overcharge those patients who do pay in order to meet the total needs.

Mrs. GRIFFITHS. How could that work this way with this military dependents? If it is 97 percent in charges, or 106 percent of selected costs, how does it work that way? Why can't you get it?

Mr. BUCHER. As you recall the military dependents program, I believe the country was split up in two different underwriters. I believe the one was Mutual of Omaha, which had west of the Mississippi, and I believe the Blue Cross Association had east of the Mississippi. Those located here, hospitalizing patients under this program here, the individual hospital was subject to the lowest of the three reimbursement factors, which are set forth under the GHI contract.

And this may well be less than a hundred percent of cost, or 106 percent of certain costs or 97 percent of charges, and one of these three, all of which would be, as Mr. Loughery was speaking about, the shifting of these discounts to the private paying patient, which would be shown in increased charges.

Mrs. GRIFFITHS. Is the big share of the amount that you are not collecting from all patients—is that the amount which is not paid by charity and where Blue Cross does not cover full charge and all the rest, and what you are really saying is that because of the charity, because of the Blue Cross, because of these other factors, the people who beat their bills, you can't put that off on any other person except the one who picks the bill up?

Mr. BUCHER. That is right. We believe that the patient who is enabled to pay his own bill, either by cash or indemnity, should not be held responsible for the losses from discounts. He should be responsible for a share of the charity load, but not discounts given to those in third parties.

Mrs. GRIFFITHS. Do you collect from these military people a portion at the hospital?

Mr. BUCHER. For what?

Mrs. Griffiths. Do you collect from the military who are entering at the hospital?

Mr. Loughery. There is a $25 downpayment, as I recall.

Mrs. Griffiths. Anything else?

Mr. Loughery. What ever else is covered. I am not that specific or familiar with the specific details. I do recall that there is a $25 downpayment.

Mr. Morgan. I think the 24 hospitals that we represent here, I would be surprised if 95 percent of them did not have a policy of taking you right in in a minute. We don't ask you whether you have got money. An emergency is an emergency. You are in. We have got to get our $25 or whatever it may be as best we can, within the ability of your pocketbook, but we don't ask you, when you come in bad shape, about the $25.

We have 20,000 emergencies every year at Suburban Hospital.

Mrs. Griffiths. What are emergencies? People who are injured?

Mr. Morgan. Anything from a badly cut finger to a traffic accident.

Mrs. Griffiths. I see.

Mr. Vanik. Mr. Chairman.

The Chairman. Yes, Mr. Vanik.

Mr. Vanik. I notice that one of the hospitals in your association is a children's convalescent hospital. As I now understand your hospital council, is one of its functions a determination of the need for hospital facilities in the community. Isn't that one of the functions?

Mr. Bucher. Yes, sir; this is handled in this area by an organization known as the Washington Metropolitan Health Facilities Planning Council.

Mr. Vanik. This is a separate organization?

Mr. Bucher. This has an entirely different board of directors, and we have no strings with it whatsoever.

Mr. Vanik. In your association here, among your member hospitals, is there an adult convalescent hospital that would operate at a lesser rate, so that it could provide some of the convalescent care without the high degree of cost that would be involved in a general hospital?

Mr. Loughery. No disrespect, sir; I am glad you asked the question, in that we have been attempting to establish such a facility at our hospital for some 3 years. The program is written, plans are in schematics, and it is just a matter of financing. We envision a 300-bed unit for this very purpose. Attainment is a matter of capital financing and to date we have not found a sympathetic ear in Congress or HEW.

The title of it would be a long-term chronic convalescent home, for the very purposes you mentioned, and it would operate, we believe, at approximately 50 percent of the cost of an acute general hospital.

Mr. Vanik. Yes, sir; but the question that bothers me is that if we segregate costs with half of the patients over 65 and the other half under 65, and we try to segregate costs in one medical unit, this is going to require some difficult accounting.

Well, if you established some more convalescent hospitals, isn't it possible that the factors relating to cost of care for the aged might be reduced?

Mr. Loughery. Yes, sir.

Mr. VANIK. So that many of those cases can be handled in convalescent hospitals instead of the high-cost general hospital units.

Mr. LOUGHERY. Whether they are over 65 or under 65; yes, sir.

Mr. VANIK. This ought to serve in the long pull to help reduce the burden on the general service hospitals.

Mr. LOUGHERY. Yes, sir.

Mr. BUCHER. The lack of convalescent facilities in the Washington area has been set forth at the No. 1 need by the Planning Council, and I think Washington Hospital Center's board action to attempt to develop facilities to meet this need is evidence of what one hospital group is trying to do, in attempting to meet a community need.

There is no question that this legislation, and the people whom it would help, would be benefited tremendously by specialized facilities, where we won't need to keep them in the generalized beds.

Mr. VANIK. Thank you, gentlemen.

Mr. BETTS. Mr. Chairman.

The CHAIRMAN. Yes, Mr. Betts.

Mr. BETTS. Is it possible to have an example in dollars and cents of the difference between the full costs and in the bill and reasonable costs? For instance, the hospital room that charges $40, what would the hospital collect on a patient that was using that room, say, under a reasonable-cost formula, and one that was using it under a full-cost formula and one under Blue Cross? Can you give me the difference dollars and cents?

Mr. BUCHER. We would be happy to submit a copy of this for the record, sir.

Mr. BETTS. I think that would be helpful. We have had a lot of talk about it, and I would like to ask Mr. Myers if the change in formula from reasonable costs to full costs, how much of that would be reflected in payroll costs?

Mr. MYERS. Mr. Betts, according to my understanding, I think that the reasonable-cost concept in the bill is supposed to be a full-cost concept. So that the actuarial cost would be the same.

Mr. BETTS. Well, do you understand it that way, the witness?

Mr. BUCHER. No, sir; we do not, and that is why we are apprehensive.

Mr. BETTS. Well, you will furnish us——

Mr. BUCHER. Sir?

Mr. BETTS. You will furnish us a statement.

Mr. BUCHER. We would be happy to furnish a statement for the record; yes, sir.

Mr. BETTS. An example in dollars and cents of the difference between the charge for room under the reasonable cost and under the full-cost formula.

Mr. BUCHER. Yes, sir.

Mr. BETTS. And would you include Blue Cross, too?

Mr. BUCHER. Yes, sir; we would be happy to.

Mr. LOUGHERY. This is where it comes from.

Mr. BETTS. Let me ask one more question. Say a room where the charge is $40, does that represent full cost, or is that more than full cost?

Mr. BUCHER. Did you say that in your example, the room rate is $40? Does this represent full cost?

Mr. BETTS. Yes.

Mr. BUCHER. In very few cases does this represent full cost, sir.

Mr. BETTS. Well, then, when you give us our example, show the difference between charge, full cost, reasonable cost, Blue Cross. Right.

Mr. BUCHER. Yes, sir. I would say, just taking a little bit of credit, that Washington area has one of the finest cost accounting and cost finding systems in effect anywhere in the Nation. All of our hospitals are required to follow a specific detailed manual of costing—of cost accounting and cost finding, so we are talking about that as it happens, we are not going to make oranges and apples and other combinations when we go after these figures.

Mr. MORGAN. That applies to all those on this letterhead.

The CHAIRMAN. Any further questions?

If not, gentlemen, again we thank you for coming.

Mr. LOUGHERY. Thank you, sir.

Mr. MORGAN. Mr. Chairman, we would like to thank you very much on behalf of our 24 hospitals for the opportunity to try to explain our position.

The CHAIRMAN. We appreciate your bringing your statement to us, Mr. Morgan.

Without objection, the committee adjourns until 10 o'clock in the morning.

(Whereupon, the committee adjourned, to reconvene at 10 o'clock, the following morning, Tuesday, February 9, 1965.)

EXECUTIVE SESSION

MEDICAL CARE FOR THE AGED

TUESDAY, FEBRUARY 9, 1965

House of Representatives,
Committee on Ways and Means,
Washington, D.C.

The committee met at 10:10 a.m., pursuant to notice, in the committee hearing room, Longworth Building, Hon. Wilbur D. Mills (chairman) presiding.

The Chairman. The committee will please be in order.

This morning, we have the Director of the Bureau of the Budget, the Honorable Kermit Gordon.

I understand, Mr. Gordon, you have a statement to make, before you are interrogated. We will proceed on that basis, and you are recognized, sir.

STATEMENT OF HON. KERMIT GORDON, DIRECTOR OF THE BUREAU OF THE BUDGET

Mr. Gordon. Thank you very much, Mr. Chairman.

Lest I seem to be appearing in these hearings under false pretenses, let me say that I profess no special expertise in the matter that the committee is now considering. There are, as you know, many persons in the executive branch much more skilled and better informed in the details of this proposal than I am. I proposed to talk very briefly, in the statement you have before you, on one aspect of H.R. 1, which does relate somewhat more closely to my responsibilities in the Budget Bureau.

I appreciate your invitation to appear before the committee today. I am appearing in support of H.R. 1, and more specifically to discuss the possible fiscal problems which might be raised by the financing plan you are considering for the old-age, survivors, and disability trust fund and the new hospital insurance program.

I would start from the premise that the social security insurance system must be soundly financed. Present and prospective beneficiaries should have no doubts about receiving the benefits to which they are entitled by law. Under H.R. 1, as under the present law, no such doubt would exist.

At the same time, we must be mindful of the relationship of social security taxes and expenditures to tax and expenditure policy for the rest of the Government, and to the necessity that our fiscal policy as a whole foster the national objectives of full employment, economic growth, and price stability.

Under H.R. 1, projections of social security receipts and expenditures indicate that a substantial excess of receipts may develop in the years ahead. While the excess of receipts will be moderate in 1966 and 1967, it rises to more than $4 billion in 1968 and could well go to somewhat higher levels in subsequent years.

The question I want to consider has to do with the effects on the economy of a net withdrawal of funds of this magnitude. This prospect might lead some to fear that this withdrawal would constitute a "fiscal drag" which would depress employment and production and retard growth.

While I can understand the basis for this concern, I believe it arises from an unduly narrow view of the problem.

The projections do, of course, make it obvious that we must exercise care and vigilance in the years ahead—just as we have in recent years—in formulating and carrying out fiscal policy. Annual budget review, designed among other things to link Federal fiscal decisions to the prospects and needs of the national economy, would have to continue to play a central role in our Government decisionmaking process.

If this is wisely done, there need be no disquiet over the "fiscal drag" which the trust fund projections by themselves might seem to suggest.

Let me cite some of the important considerations:

First, the balance in the trust funds may not build up at the rate projected. Periodic reappraisals by the Congress in the future, as in the past, could well lead to changes in tax rates, the wage base, benefit payments, or combinations of these—still within a soundly financed system.

Second, there is the possibility that steady and substantial surpluses, with a buildup of the trust fund balances, as projected, could fit nicely with the economic policy called for by the times.

If we should move into another investment boom, with pressures on prices and shortages of funds in the capital markets, the needs of the economy might be well met by substantial trust fund accumulations.

There have been times in the past, and there will undoubtedly be times in the future, when the economy requires restraint through the Federal budget.

Finally, if private demand should slacken, or if it fails to expand at a rate sufficient to utilize satisfactorily our growing human and material resources, the braking effects on the economy of the trust fund surpluses could be readily offset by other policies, principally through tax or expenditure actions affecting the administrative budget.

The policy of regular review, reappraisal, and, if necessary, fiscal action to strengthen or offset dampening economic effects is a policy which should be followed generally, even in the absence of the legislation you are now considering.

The present legislation, however, emphasizes the unsuitability of the administrative budget as a benchmark for fiscal policy. There must be increased public awareness that the comprehensiveness of the consolidated cash statement makes it superior to the administrative budget as a measure of the effect of Federal financial transactions on the economy.

For example, a $4 billion net accumulation in the trust funds would yield a balance in the consolidated cash budget even though the administrative budget were $4 billion in deficit. This means that the administrative budget deficit would be financed without drawing any funds, net, from the capital markets—the financing would be strictly intragovernmental, with aggregate Federal financial transactions exercising a neutral economic effect in this regard.

Similarly, a balanced administrative budget under these conditions would result in the repayment by the Federal Government of $4 billion of cash previously borrowed from the public—a welcome addition to the capital markets during periods of investment boom.

In summary, I repeat, that the projected financing plan need not cause disquiet, but it does call for vigilance in the discharge of our fiscal policy responsibilities. It emphasizes the need for flexibility in policy formulation and action, taking into account trends in private as well as public economic behavior, and alerts us to the necessity of using the appropriate accounting statements to shed a clear light on the relations between the Federal Government and the national economy.

The CHAIRMAN. Thank you very much, Mr. Gordon.

Any questions of Mr. Gordon?

Mr. UTT. I have one question.

The CHAIRMAN. Mr. Utt.

Mr. UTT. Mr. Gordon, on page 2, line 6, where you say that the excess receipts will rise to more than $4 billion in 1968, I was wondering where that figure of $4 billion comes from?

Mr. GORDON. This comes from the projections which have been furnished to us by the Department of Health, Education, and Welfare, indicating what the projected receipts and disbursements from all of the social security trust funds taken together will be in future years.

The excess of receipts will be something like $4 billion under present estimates in calendar year 1968. It is in the publication "Actuarial Study No. 59," which I believe the committee has, on pages 39, 45, and 46.

The surplus, of course, would be the net accumulation in the fund from one year to the next. For example, page 45, shows a balance in the OASI fund alone of about $19.2 billion at the end of 1967. The end of 1968 shows $23,070 million; the difference would be a surplus of receipts over disbursements of something like $3.8 billion for OASI alone in that year. For all the funds added together, OASI, disability insurance, and hospital insurance, the 1968 surplus would be $4.1 billion.

Mr. UTT. Thank you.

The CHAIRMAN. Any further questions of Mr. Gordon?

Mr. ULLMAN. Mr. Chairman.

The CHAIRMAN. Mr. Ullman.

Mr. ULLMAN. Mr. Gordon, I realize you didn't speak to this point, but in your preparation of the budget you will find the impact of this program on various other aspects of the budget.

In other words, there will be substantial savings in other areas because of the fact that we are replacing other programs with this program under a totally different system of financing.

Would you be able to give us from time to time an accurate estimate of how much we are saving in other programs because of this impact?

Mr. GORDON. Well, yes, indeed, Mr. Ullman, we would be happy from time to time to provide such estimates. One thing that occurs to me offhand, of course, is the effects of the blanketing-in provision on public assistance expenditures in the administrative budget.

There will be a very substantial offset there, because persons who are covered under the hospital insurance program would presumably, then, constitute less of a charge on the medical aspects of the public assistance program.

Mr. ULLMAN. You might very well realize some savings on the veterans' hospital program, if some of the older veterans find that this is a better way to meet their needs.

Mr. GORDON. That's correct, Mr. Ullman. It is very hard to predict. I have thought a bit about this, but I haven't seen from the Veterans' Administration or from HEW any estimates as to what the effect is likely to be. There will unquestionably be many persons who are both eligible for care in a veterans' hospital and who are also eligible for hospital care under the hospital insurance program, and exactly how they will choose, and what effect this will have on the cost of the veterans' hospital program, I don't think can be estimated with any accuracy. Clearly, they are related. If an eligible veteran chooses care in a VA hospital, H.R. 1, contains a provision that would prohibit the hospital insurance trust fund from reimbursing the Veterans' Administration, however, to the extent that veterans eligible for hospital care under the veterans' program choose to take advantage of the rights they have under this hospital insurance program and enter another hospital, that will tend to reduce the cost of the VA hospital program.

Mr. ULLMAN. I hope you won't overstate that point, though, as a further rationalization for closing down veterans' hospitals.

Mr. GORDON. I don't think, Mr. Ullman, that this point has ever been referred to in connection with the recent action to which you refer.

Mr. ULLMAN. I will be very much interested in a depth study, if it is possible, of the many programs that this might effect in producing savings out of general revenue.

Mr. GORDON. I would be happy, if the committee would like, to prepare a statement for the record on this point. I doubt if we could provide dollar estimates of savings, but I think we might be able to point to particular administrative budget programs which would be affected by the hospital insurance program, and to those programs in which we could anticipate some reductions in the administrative budget, if that would be satisfactory.

Mr. ULLMAN. I personally would like to have that kind of analysis.

(The following information was subsequently provided for the record.)

H.R. 1 to authorize insurance for hospital, nursing home, and diagnostic services for the aged will affect a number of health programs financed from the administrative budget which now provide similar services for aged persons under other Federal laws. Persons over age 65 will have the option of using the benefits authorized by H.R. 1 in lieu of the benefits provided through other programs. It is, of course, very hard to predict what the extent of the shift may be.

A comprehensive list of Federal health programs is included in the 1966 budget (Special Analysis G, pp. 432–442). The principal programs which would be affected by H.R. 1 are:

Department of Defense: Hospital and medical care for retired military personnel and their families.

Department of Health, Education, and Welfare:

Health service for Indians.

Public assistance grants for vendor payments for hospital and medical care under old age assistance and under medical assistance for aged (Kerr-Mills).

Veterans' Administration: Hospital, domiciliary, nursing home, and outpatient care of veterans.

Various smaller programs may also be affected.

It should be noted that hospitals operated by State and local governments will be reimbursed under H.R. 1 for the specified services they provide to aged persons, but Federal hospitals will not be so reimbursed. This will sharply limit savings in the administrative budget for the directly operated programs listed above.

The CHAIRMAN. Further questions?

Mr. ULLMAN. That's all.

The CHAIRMAN. Further questions?

Mr. UTT. Could I persist there one moment?

The CHAIRMAN. Mr. Utt.

Mr. UTT. Mr. Gordon, looking again at that table on page 45, what happens in 1968 to cause a $4 billion increase in contributions with less than a billion dollar increase in benefits?

Mr. GORDON. I believe there is projected another increase in the rate of payroll tax in 1968.

The CHAIRMAN. Let's clarify this. Jim, will you yield to me?

Mr. UTT. Yes.

The CHAIRMAN. Is this table, Mr. Myers, based on existing law, this table that we are talking about? You remember that under existing law, we have a rate increase in 1966, another rate increase in 1968. Is it basd on the provision of existing law, this table?

Mr. MYERS (Chief Actuary, Social Security Administration). No, Mr. Chairman, this table is based on the contribution schedule in H.R. 1, in which the combined employer-employee rate increases from the 8.5 percent that applied in 1966 and 1967 to 10 percent.

The CHAIRMAN. Ten percent. So it is up 1½ percent.

Mr. MYERS. Yes, Mr. Chairman.

The CHAIRMAN. What would the situation be, Mr. Myers—if you will pardon me, Jim?

Mr. UTT. Yes, go ahead.

The CHAIRMAN. What would the amount be, Mr. Myers, under the provisions of existing law? Would you have a surplus, perhaps, even greater than that in 1968? Do you have that?

Mr. MYERS. Just a moment.

The CHAIRMAN. I know at one point, I talked to the Director of the Bureau of the Budget about this very impact in 1966 and 1968 under the provision of existing law.

Mr. GORDON. I think I have these figures, Mr. Chairman. Perhaps Mr. Myers can check them.

My figures would show that under existing law, the increase in the surplus—that is, the excess of receipts over disbursements—is almost as great in 1968 and subsequent years as under the proposed law. It shows in 1968 a surplus of $3.9 billion.

The CHAIRMAN. That's what I was getting at.

Mr. GORDON. As opposed to 4.1 under the proposed law.

The CHAIRMAN. The $3.9 billion does not provide for the increase in cash benefits that are provided for in H.R. 1, as well as the hospital benefits provided in H.R. 1?

Mr. GORDON. That's correct, sir.

The CHAIRMAN. Yes.

Mr. GORDON. I think that, looking at the figures I have before me, that could be stated generally in these terms: That this large surplus in the years 1968, 1969, and 1970 is virtually as great under the present law as under H.R. 1.

The CHAIRMAN. Mr. Utt, thank you for yielding to me. Do you have some further questions?

Mr. UTT. Mr. Chairman, all I was wondering was why that sudden jump. Was there that big an increase in the tax?

The CHAIRMAN. But you caught the point I brought out. Under the provision of existing law——

Mr. UTT. Yes.

The CHAIRMAN. The jump in the surplus would be $3.9 billion, and, of course, existing law does not provide for any increase in benefits, nor the hospital benefit program either, so that the jump in that particular year, taking into consideration provisions of H.R. 1, both the cash benefits and hospital benefits, increasing tax rate, and so on, is in the neighborhood of only $100 million more than under the provisions of existing law.

Mr. UTT. That's all I have, Mr. Chairman.

The CHAIRMAN. Mr. Gordon, I doubt, frankly, over the years, that as much importance has been attached to this in the overall consolidated budget as should have been attached, considering its effect on the economy as a whole.

I doubt that this aspect of taxation has always been weighed in determining the so-called cash budget, and its effect upon the economy. I am very pleased that in more recent years, the overall effect of taxation, Federal taxation and Federal activities, as well as just those confined to the general fund, are being taken into consideration for this purpose. I think it is more important than ever—when the amount of the take from a payroll tax gets to be as high as it is now and will be in the future, under the provisions of existing law, aside from any increases that Congress might subsequently enact—and I think that you are to be congratulated for having contributed this to the thinking in Government as the Director of the Bureau of the Budget.

I know you and I have talked about it on several occasions, since you have been the Director.

Mr. GORDON. Indeed we, Mr. Chairman.

The CHAIRMAN. And I appreciate the statement that you have made in that respect today.

Now the argument is made—and I am just merely mentioning an argument; I have not identified myself with the argument, understand—that there is very definitely a limit to which we can go in the establishment of payroll taxes, because payroll taxes are said to have a very adverse effect upon exports of goods. In other words, they have the effect of increasing prices, and so on.

Have you made any study of this point to determine whether or not there is, or the extent of this effect through the use of a payroll tax?

Mr. GORDON. I have looked into this, Mr. Chairman. I do have some views in the matter. I think perhaps the best way to start out is to compare the effect of increased payroll taxes on business costs with other factors which affect business costs.

As you know, output per man-hour, or productivity in our economy, grows at a rate somewhere in the range of 3 to 3½ percent a year, and this means that even in a period of stable prices, we can have wage increases, wage and fringe benefit increases, amounting to 3 to 3½ percent a year, simply reflecting the increase in productivity.

Now 3½ percent a year over a decade quickly build up to a 40 to 50 percent increase in the payroll of an employer who has the same number of employees over the period, so that when you compare these quite modest increases in payroll taxes with the rate at which money costs are increasing for other purposes, I think you are forced to conclude that the payroll tax element in costs is a very, very small one, and is eclipsed by other factors which are much more important in their effect in the total level of money costs.

I have looked recently at the record of the last several years, because I think this is a good test of the effect of increasing payroll taxes on price levels and on the competitiveness of the economy.

I think I am correct in saying that between 1959 and 1963, we had four separate increases in payroll taxes. That was a period in which payroll taxes advanced rather sharply in comparison with past rates of advance, and yet that period, roughly 1959 to 1963, was a period of complete stability in our wholesale prices.

I believe that at the end of 1963, our wholesale price level was probably a little bit below what it was in early 1959.

And furthermore, because the crucial question is how this affects labor costs in production, I have looked up the best index we have of labor cost per unit of output. This index measures the cost to the employer of the labor he hires, both wages and nonwage supplements, which are labor cost in nature, for each unit of output the employer in manufacturing produces.

The result is a really quite striking development. Today, in early 1965, our labor costs per unit of output in manufacturing are lower than the 1957 average, so that throughout this period in which we have had modest increases in the rate of payroll tax, the labor costs per unit in manufacturing have declined.

I think this simply underlines the point I started out with, which is that given a situation in which wages can rise 3 to 3½ percent a year consistent with price stability, the small increases in payroll taxes that we have had and that are projected for the future are very unlikely, I think, to have a significant effect on the price level.

Over this same period, incidentally, from 1960 roughly through 1964, as you know, we have had one of the sharpest increases in exports, in commercial exports, that the United States has had in many years.

Our trade balance is considerably better today than it was in 1960. Our exports have risen much more rapidly than our imports have risen. We are in a stronger competitive position, as measured by the trade balance, than we were as recently as 4 years ago. All of this would lead me to conclude that any impact that increasing payroll taxes may have on the price level, or on competitiveness, are very small, and have been eclipsed by other factors making for price stability and increased export competitiveness.

The CHAIRMAN. Well, then, you have no doubt in your own mind that the economy can absorb the increases in payroll tax which are recommended in H.R. 1.

Mr. GORDON. I have no doubt whatever, Mr. Chairman.

The CHAIRMAN. Without any adverse effect upon price or our ability to continue to export goods.

Mr. GORDON. That is correct. That's my view.

The CHAIRMAN. Well, I share that view, and I have seen some of this information that you called to the attention of the committee. The true index of our ability to export is our per unit cost, as I take it, of producing goods, and it is remarkable that in the light of rising costs in some areas of production, it has been possible for us, in total, to bring the trend per unit cost down.

I think that has been a great feat of American ingenuity.

Mr. GORDON. It has, indeed. Although there are other factors involved, that factor has been, I think, the decisive factor in producing the great strength in our export competitiveness which has occurred in the last 4 or 5 years.

Mr. ULLMAN. Would the gentleman yield?

The CHAIRMAN. Yes.

Mr. ULLMAN. Isn't it also true that with more and more of industry assuming this responsibility for their employees, this is actually a less-expensive way of meeting this problem than if we had to depend on alternate private insurance methods?

Mr. GORDON. I am sure, Mr. Ullman, that is the case to some extent. Even to nonexperts in the field of labor relations, it is clear that there is a growing recognition on the part of employers of a responsibility to help provide for the retirement income of their employees, and, of course, to also provide health services for their employees. To the extent that this is done through a universal program of this sort, it does reduce the burden on the employer of providing similar benefits through privately financed schemes.

Mr. ULLMAN. Thank you.

The CHAIRMAN. Mr. Gordon, some time ago, a former Secretary of HEW—one for whom we all have a great deal of respect, for he has great ability—suggested that there was a ceiling beyond which we could not go or should not go—I have forgotten how he stated it—in the imposition of payroll tax for social security purposes. I believe the figure he suggested was 10 percent. There may be a ceiling and I would certainly assume that there is a ceiling for this purpose, but that ceiling may or may not be 10 percent. Some say it may be a figure higher than 10 percent, depending upon the ultimate effect of that ceiling upon our ability in the overall to produce units for sale here and abroad at competitive prices. Is that the true test?

Mr. GORDON. That is certainly one central test, Mr. Chairman.

The CHAIRMAN. It may not be the only one, but that is a test.

Mr. GORDON. That is certainly a central test, and I would say that our experience so far has indicated that these recent increases—as I say, four of them in a period of 5 years—certainly have not, in any visible way, weakened our export competitiveness.

As a matter of fact, they have gone hand in hand with a great strengthening in our export competitiveness.

The Chairman. Well, it indicates that you can't look at just one thing and reach any conclusion. You must look at how it fits into the overall picture.

Mr. Gordon. Exactly, sir.

The Chairman. Some things may tend to offset this one factor, as evidently was the case between 1959 and 1963. There is no evidence today, as I see it, that it is not possible for these other factors to continue to offset this one factor of increase, is what I am getting at.

Mr. Gordon. Exactly.

The Chairman. You see nothing on the horizon to indicate that these factors that have offset this one factor in the past could not continue to do it to some degree?

Mr. Gordon. Nothing whatever.

The Chairman. To this extent, at least, in the future.

Mr. Gordon. I would again point out that these increases that we have had in the past, and that we look forward to in the future, are so small in relation to other factors which determine labor costs, that, on the most wide-ranging assumptions, it is hard to see how they could have a significant deleterious effect.

The Chairman. One point I am sure that you would agree with me on is this: That in the process of providing these increases, it is better to do it in graduation than to do it all at one time, and hit the economy with a real steep increase that it might have more difficulty adjusting to than it would to several graduated steps.

Mr. Gordon. That is unquestionably true, Mr. Chairman, for the same reason that an employer, over a period of 5 years, might be able to raise money wages by 15 to 20 percent, if the wage increases go on year by year, without increasing his prices, but if he had to do it all in 1 year, he would certainly have to increase his prices.

The Chairman. Have you thought from the point of view of economic effect whether there is any difference in an increase in the wage base or an increase in the tax itself for social security purposes?

Mr. Gordon. I am not sure, Mr. Chairman, that I have given a great deal of thought to that. In terms of the progressiveness or regresssiveness of the tax, this obviously has some effect.

To the extent that you raise the wage base, the tax becomes slightly less regressive.

This is certainly one consideration. I am not sure that any others occur to me offhand that would serve as a basis for choice between these two.

The Chairman. There may not be any choice, actually, from the point of view of the economic impact there. I can think of several advantages, one over the other. I have thought that we have tended to minimize the use of the wage base as a method of getting money into the fund. and have at the same time overemphasized the use of the tax rate itself. I would think in the future, as we look at this, that we shall want to balance the wage base with rate increases a little bit more than we have in the past. Not just for the effect on the economy, but for other reasons.

I was just exploring to see whether there might be some effect on the economy, also. I could not think of any, offhand.

Mr. Gordon. I am afraid I can't either, sir.

The Chairman. All right. Mrs. Griffiths.

Mrs. Griffiths. I noticed the other day, Mr. Chairman, that the Wall Street Journal carried an article on the amount of savings by people above 65 which was greater than the amount of savings of any other group, and the lack of debt, and they appear to believe that the medicare program would free, noticeably, some of the money of the people beyond 65 for expenditures in other fields, and thus have a lifting effect to the economy. Do you think that this would be reasonable? Do you have reason to believe that?

Mr. Gordon. I didn't see that article, Mrs. Griffiths, and I am afraid I haven't speculated on it, so I would be reluctant to make a judgment on it. I would think that in general, to the extent that the vicissitudes of life are covered through a social insurance program, a person is freer to spend his current income and, if he is elderly, perhaps even to spend some of his assets for current consumption.

This would seem to me to be a plausible assumption, although I have never looked at the figures that would support it.

Mrs. Griffiths. Well, I think they show that something like half of these people, or something close to that, had investments of about $12,000 or $13,000. Personally, I wondered if the reason really isn't to give those people an opportunity to draw additional income? I mean, would they be apt to cut into the principal, to deny themselves future income? And I would think there would be some question about it, but it was an interesting article, anyhow, and an interesting theory that it would actually have a lifting effect on the whole economy.

Mr. Gordon. As I think about it while you talk, I must say it seems to me a good deal more plausible. Clearly, if a person in his later years fears catastrophic illness and the kind of expenses which go with catastrophic illness, he is going to be a lot less free to use his current income and assets to finance current consumption.

I would think this would be a sound judgment.

Mrs. Griffiths. Thank you.

The Chairman. Mr. Gordon, in the enactment of a program of this sort, I am talking about hospital benefits, as the Director of the Bureau of the Budget, would you consider it better from the point of view of good fiscal policy, the establishment of expenditure policy, to pay for such benefits out of the general fund of the Treasury, or to pay for them out of the separate fund supported by a payroll tax for that purpose?

Mr. Gordon. I think I would strongly favor the payroll tax approach, Mr. Chairman.

The Chairman. I would like as the Director of the Bureau of the Budget for you to develop your thinking as to why one is prefarable to the other, if you have had time to think about it.

Mr. Gordon. I am not sure I could develop it at great length. It seems to me the most decisive consideration is the maintenance of the insurance aspect of the program.

The Chairman. Well, I am not thinking about that. You can have the insurance aspect of it paid for out of the general fund of the Treasury, I take it, just as well.

You can just buy an insurance policy for everybody out of the general fund of the Treasury, if you want to, and you have got the insurance aspect of it, but I am thinking about it strictly from the point of view of the expenditure rate, and the preferable way of making such expenditure from the Federal level.

Now if you set it up the way I mentioned, in a fund, where the benefit is dependent upon the rate of tax applicable to that fund, do you not have a greater degree of control over your benefit than you do if it is to be paid for directly out of the general fund of the Treasury?

What is your experience in that respect? Do you have any greater control when matters are paid for out of a trust fund than you do over matters paid directly out of the general fund of the Treasury?

Mr. GORDON. Well, there is obviously, Mr. Chairman—if I understand what you are getting at—a closer, necessarily closer, relationship between receipts and disbursements in the structure of a trust fund than there would be through the administrative budget.

The CHAIRMAN. Well, I am thinking about the last 30 years of Government operation. Haven't we done a better job, actually, of financing the cost of the social security program out of a separate fund, paid for by a payroll tax, than we have some other expenditures of Government?

Mr. GORDON. We have done a better job, Mr. Chairman, in the sense that the beneficiaries know that they have these benefits as a matter of right, and that they know and can see that their own contributions are financing it. It is maintained as a separate account, and it has the special integrity that a separate account makes possible.

In all these respects, I think it is a superior method of financing. Yes, sir.

The CHAIRMAN. I am thinking about something broader than that. Perhaps you have not thought about it as much as the HEW people or as I have thought about it, but whenever you have a program financed by a specific tax, the willingness of people to pay that tax, that specific tax, limits the benefits of that specific program.

That is not the case with respect to general fund, is it?

Mr. GORDON. I see the point you are driving at, Mr. Chairman, and that is perfectly correct.

The CHAIRMAN. If you put a program, then, into the general fund of the Treasury, there is less likelihood that you control the package of benefits initially enacted than there is if you put it in a trust fund, in my opinion.

Thus I can't help but reach the conclusion that a specific fund, supported by a payroll tax, is a more conservative method of financing something than to do it out of the general fund of the Treasury.

Mr. GORDON. Because, I presume you mean, Mr. Chairman, because there is this direct link, this direct financing link, between earmarked taxes and particular benefits. This does not exist in the administrative budget.

The CHAIRMAN. Exactly.

Mr. GORDON. And it is always possible, and frequently done, in the administrative budget, to increase benefits of one kind or another, without necessary regard to the method of financing.

The CHAIRMAN. Well, at least the Congress—I will leave executive out of it—at least the Congress has not shown the same restraint with respect to the growth of benefit programs, benefits for the American people paid for out of the general fund of the Treasury, that it has shown with respect to benefits paid out of a special fund created by the Congress.

Mr. GORDON. I think that's true, sir, and I think it is inevitable.

The CHAIRMAN. I think the position is clear on that.

Mr. GORDON. Inevitable and arises from the direct link between the earmarked tax and the level of benefits.

The CHAIRMAN. Exactly. The tax itself serves to limit the benefit.

Mr. Watts is recognized.

Mr. WATTS. Mr. Chairman, I will go along with the report that in a fund like the social security fund, we have been able to keep it more in balance, if the figures given are correct, than we have our general fund, because we can run at a deficit in the general fund, and we are not supposed to have a deficit in the social security fund, which in itself speaks for the fact that you have been able to keep your tax rate more equal to your outgo than you have in the general fund.

But also, we have done this: I haven't seen that there has been a brake on increasing benefits, and increasing this, that, and the other, because every time this committee meets on social security, we increase the benefits to somebody, and we increase the taxes; yet with respect to our general fund, we have been decreasing tax rates.

The CHAIRMAN. Wait a minute. If you will yield back to me just a minute.

Mr. WATTS. Yes, sir.

The CHAIRMAN. I want to call your attention to the fact that we haven't increased cash benefits since 1958, but during the same period of time, let us look to see how the costs have increased out of the general fund. In addition to that, bear this in mind, that in the early years of the social security program, we had the provision that we later took out of the Social Security Act, to the effect that if you couldn't pay for the benefits that we wanted people to receive out of this trust fund, we would make the benefits payable out of the general fund of the Treasury.

That was the so-called George amendment.

Mr. WATTS. I am not familiar with that provision, but I am familiar with the fact that the social security tax has year by year, or every 2 years, gone up, whereas the general tax hasn't, and I am willing to concede that we have done a much better job of keeping income and outgo on a balance, but as to whether or not it has deterred us from spending any money is problematical.

The CHAIRMAN. We have always provided an increase to this tax when we have provided an increase of benefits.

Mr. WATTS. We have always provided an increase in taxes to meet the increase in benefits and the extra cost of it, and we have kept the fund on a much sounder basis than we have the general fund.

The CHAIRMAN. We haven't provided that increase in taxes every time we have wanted to spend more than revenue would produce for general purposes.

Mr. WATTS. No. We have not and that's the point I wanted to make. I am not disagreeing with your statement. I think we have done an excellent job of providing and making people pay for the increased benefits, year by year, that they get out of the social security fund.

With respect to the general fund, we have had a policy—and this is what I was told when I first came here, 16 years ago—that the only way to make this country prosper was to spend every nickel you could get your hands on, and the more you spent, the more prosperous you would become.

I have been following that kite around here for about 16 years, and I have never caught up with the kite yet. I am still holding on to the tail, but nevertheless, that's been the philosophy.

The CHAIRMAN. The kite has been going up.

Mr. WATTS. I am not quarreling, and I certainly believe we have still got the greatest country in the world. I agree with you that we have done a fine job of keeping a special fund in balance, taxwise, and paymentwise, but I just did want to point out that I don't know whether it has been too much of a deterrent to spending.

Mr. ULLMAN. Will the gentleman yield?

The CHAIRMAN. Yes.

Mr. ULLMAN. Just on that point, I would like to call the gentleman's attention to the matter of increasing the so-called earnings limitation, the retirement test in the Social Security Act. I would venture to say that if this program were financed under the general fund philosophy, exemptions would have gone up.

All of us know that this factor is a very costly item in the social security program, and yet there is great public pressure toward increasing it, so the only way we have been able to hold down the income exemptions has been the fact that we have to pay the piper when we call the tune, whereas if it were financed out of general revenues, we wouldn't be concerned about paying the piper, and therefore, general fund financing would add tremendously to the overall cost of the program.

The CHAIRMAN. Well, all of us that have been on this committee any length of time know that any time anybody now wants an increase in benefits, they point to $20 or $21 billion in this fund, to say that you can have an increase in benefits without increasing the tax.

"You have got all the money stored up." That's the argument I get all the time.

People come in to me talking about increasing the work clause just referred to by Mr .Ullman. I say, "Well, if you do too much to it now, we have got to have a 1-percent increase in the tax."

"Oh, you don't have to have any such thing. You have got $21 billion already available. That alone is sufficient."

But if you had this whole thing in the general fund of the Treasury, there would never be any end to it.

Mr. WATTS. There might not be, Mr. Chairman, and I am perfectly willing to concede, as you state, we have done an excellent job, but every time that we needed extra money in the social security fund. we have responded and provided it, and in the general fund we have not.

Because if we had, we wouldn't have had the deficit we have had.

The only point I have to bring up is maybe there is some deterrent to it, but still, it hasn't deterred us from going ahead and increasing the benefits under social security and the tax, too.

The Chairman. Well, feeling as I did initially in asking my question, if the payroll tax itself could be absorbed by the economy without increasing prices, and without making it more difficult for us to sell goods abroad, it seemed that that was a preferable way of having this benefit, if it is to be had, than putting it in the general fund of the Treasury. That was the substance of what I was leading to initially.

Mr. Watts. Well, I would say that there is no question but what the social security fund should have been a separate fund. I doubt seriously if it has been as much of a deterrent for increasing it as some of of us would like to see.

The Chairman. All right. Mr. Curtis.

Mr. Curtis. Mr. Chairman, I want to apologize for not being here before now. In the colloquy I had with you, not on the record, I learned that you had asked one of the questions that I was particularly concerned about, which was what the payroll tax would do in reference to increase in prices, and in respect to our sale of goods abroad.

This was not in your original statement, but the chairman tells me that you answered that at some length. Is that right?

Mr. Gordon. I did comment on it. I would be happy to summarize what I said, Mr. Curtis.

The Chairman. Go over it briefly, if you would, Mr. Gordon.

Mr. Curtis. If you would, just briefly, because I will read the record and get the full statement, but I possibly would like to interrogate you a bit on that.

Mr. Gordon. I think the first point I made, Mr. Curtis, was to point out that as an element in business costs, the projected increases in payroll taxes that we are talking about here are very, very small, almost minute, in relation to other factors that will affect business costs and particularly labor costs in the future.

With an annual increase in output per man-hour in the economy as a whole running in the range of 3 to 3½ percent, noninflationary wage increases could also run at the rate of about 3 to 3½ percent a year. Over as short a period as a decade, this rate of increase could produce a noninflationary wage increase of something like 40 to 50 percent. Yet we are talking about an increase in the payroll tax on the employer from now to the maximum in 1971 of just about 1½ percent. I think the first point I would make is that the magnitude of this as a dollar cost element is quite small.

Mr. Curtis. Now are you including the increase, when you say 1½ percent, just the increase from this proposal, or also those built-in increases that we already have, that we now have coming?

Mr. Gordon. I am talking, and I hope Mr. Myers will correct me if I am wrong, about the increase from the present combined rate of 7¼ percent. The maximum combined rate under H.R. 1 is 10.4 percent. That is a combined increase of a little over 3 percent, so that half of it, on the employer, would be about 1½ percent.

Mr. Curtis. But you have left out the base. There is an increase in the base.

Mr. Gordon. There is; that's correct, sir. There is. I doubt that that will affect the computation very greatly, the increase in the earnings base from $4,800 to $5,600. The potential for a 3 to 3½ percent noninflationary wage increase would cover all wages, not only the amount under $5,600 per year.

Mr. CURTIS. Plus one other thing, if I may say, one of Mr. Myers' assumptions is that we would be increasing the base. In fact, if we don't increase the base, after 1975, I think the figure is, on this one fund, we end up with nothing in it.

Mr. GORDON. If we don't increase the base? Perhaps Mr. Myers would comment. This goes beyond my depth, Mr. Curtis.

Mr. CURTIS. Yes; I think that's what the significance of Mr. Myers' additional figures are, that if we went on on the present wage base in H.R. 1, by 1975 the trust fund would be down to about $200 million, and that his long-range assumptions are on the assumption that we will increase the base.

Am I correct in that, Mr. Myers?

Mr. MYERS. Yes, Mr. Curtis.

I would be glad to comment on this. The assumptions underlying the financing of the proposed hospital insurance program are that the $5,600 earnings base will be kept up to date with changes in the earnings level in the future.

For the cash benefit side of the program, this assumption is not made, and it is not necessary, because as you know, if earnings increase, the wage-related cash benefits provisions do not need that additional financing.

Mr. CURTIS. That is right, Mr. Myers, but could I interject to clarify our dialog?

Mr. Gordon, you see, by his eliminating that, he is using up some of this increase that you are talking about from the increase in wages from increased productivity.

But go ahead, Mr. Myers.

Mr. MYERS. Just one point further, Mr. Curtis. In regard to your comment about the hospital insurance trust fund being depleted by 1976, that is correct under the assumption that the $5,600 earnings base does not increase in the next 10 years.

Mr. CURTIS. That's right. You see, the point, Mr. Gordon, I think from the standpoint of our discussion on the payroll tax, we have to consider not just the increase in the rate which you have, and not just the base, the $5,600, but also the base continuing to increase in relation to overall wage increases in the society.

I think we have got a little more difficult problem than you have presented, and particularly, let me add another thing. We use the payroll tax not just for social security, and not just for this projected hospital program, but unemployment insurance is also based on a payroll tax, and so, I think, is workmen's compensation.

And then furthermore, we have built in, under the theory, at any rate, on social security, that we will increase benefits from time to time to reflect the cost-of-living increase.

For instance, in 1958 was the last time we did increase the benefits, to take care of cost-of-living increase, and so, as you know last year, a bill that passed both the House and the Senate, that would increase the benefits simply to try to take care of that cost-of-living increase.

I argued that we ought to, if we really kept up, we had to increase it 8 percent. The bill before us is 7 percent, so that those factors must be put into this problem that we have.

Mr. Gordon. I think it is still very clear, Mr. Curtis, that the kind of increases we are talking about, taking all these factors into account, insofar as they constitute a business cost, are still very, very small in relation to the other factors which determine the rate of increase in money wages. And keep in mind that the purpose of increasing the earnings base beyond $5,600 is to keep it up to date as wage levels rise. If the base is raised as wages rise, and, as we have seen recently, wage increases in total remain within the increase in productivity, the proportion of total payroll subject to the tax would remain the same and consequently, the impact on employees—at the maximum—would remain the same. If the base is not kept up, the impact on employers would be less than I have suggested.

Mr. Curtis. You are talking about your productivity increases.

Mr. Gordon. Yes. If I may extend this a bit, I would like to make one point that I made previously before you came into the room. It seems to me that a good test of the relationship we are talking about is the experience we have had in recent years. This has been a period in which there have been a number of increases in the rate of payroll tax under the social security program. There were increases in 1959, 1960, 1962, and 1963. Four increases in 5 years.

Yet I think it is very significant, as you well know, that this whole period has been one of almost absolute stability in our wholesale price index. It has been a period, actually, of stable to declining labor costs per unit of output. I was just looking at the series which measures labor costs per unit of output in manufacturing. As you know, Mr. Curtis, that series is today below its level in 1960; and in 1960 it was below its level in 1958.

There has been a slow decline in total labor costs, including wage and nonwage elements, per unit of output.

Mr. Curtis. I will agree but I point up what I regard as the unrealistic limit of the survey that you have made. Therein lies the problem, as I see it. You talk about wholesale prices and you talk about wages in manufacturing, but the phenomenon, as we see it, in the past 10 to 15 years, and increasingly so, has not been in the manufacturing sector, has not been in the sector of creating goods, but has been in the area of distribution of goods and the rendering of services, and we see it in employment, where there is a decline in overall employment in manufacturing, although a very interesting shift from blue collar to white collar, where white collar are actually increasing, and the full decline in manufacturing labor force is blue collar, but in the service and distributive fields, we see the great increase.

I think this is fine and is great, and is the reason I have suggested many times that we see this very fine holding the line in wholesale prices, and yet the implicit price deflator is up around 1.7 or 1.8 a year and the Consumer Price Index is up, because of these growing sectors of the economy. This is particularly important in hospital costs, which is a service industry, where all the testimony reveals that our wage scales even now are way below what they should be.

So I think we have got to look at this whole picture. It is true that in selling in the marketplace, international marketplace, you might think in terms of goods, but I think increasingly, we are looking there in terms of services, too, and our distributive techniques. This is a very crucial thing.

Mr. Gordon. Yes, Mr. Curtis, you are quite right. I agree that you have got to look at developments in the field of services as well as in goods. But goods, after all, constitute the overwhelmingly important element in our balance of payments, merchandise exports and imports.

Mr. Curtis. But it doesn't. You say that it does, and that's the very point I am raising. It is an important one, but increasingly less important, that services and the distributive aspects of the goods are coming into play in the international marketplace, and one reason I argue that you find that our manufacturers will actually move the plant from the United States and put it over into country X, is because of the distributive and service aspects.

Mr. Gordon. And yet, Mr. Curtis, we have a remarkable expansion, as you know, in our commercial exports of goods the last 4 years.

Mr. Curtis. Not so remarkable, I will argue, if you eliminate the agricultural surpluses, which make our exports over imports look so good, and look at our share of the increased international trade. I agree it is still healthy, but it is not the figure that——

Mr. Gordon. I am talking about commercial exports.

Mr. Curtis. They call this agriculture commercial.

Mr. Gordon. Well, a part of it is, and a part of it isn't, as you know.

Mr. Curtis. Well, I have seen it listed as if it were, and I know you and your figures have separated them, but all I wanted to do was call attention to the fact that I don't know how we separate it, I might say, under the way we have got our agriculture set up in this country, under subsidy. How we can separate that which is honest-to-goodness commercial agriculture, going in the international marketplace, from that which is Government-subsidized agriculture. But at any rate, I do agree with you that we have got a good export figure.

Mr. Gordon. And I think the relevance of what we are talking about here is that this very reassuring expansion in commerical export of goods has happened over a period in which we have had 4 increases in payroll taxes in a period of 5 years.

Mr. Curtis. I think there is merit to the argument. I am going to get to the greater problem that I think we have with the payroll tax, and this is an important one and one we must look at. I think as we keep putting on to this payroll tax the problem keeps getting greater in geometrical ratio.

These increases really do not improve increased productivity. When we load these things on the payroll tax we can't relax in the sense that we know that this kind of thing is going to give us the further increased productivity that we are counting on to pay for the increased payroll tax.

You would agree with that, wouldn't you?

Mr. Gordon. I am not sure I followed that, Mr. Curtis.

Mr. Curtis. The increases that we experience in the payroll tax are not the kind of expenditures that give us this increased productivity which would enable us to absorb these increases. That is the only point I am making. It is not a big point.

Mr. Gordon. If your point is that the increased payroll tax is not a contributing cause of any importance to the improvement in productivity, I would agree.

Mr. Curtis. Yes, that is all the point I was making. Then I was going to say that coupled with this same problem is our minimum wage situation which reflects again on these costs, but I think what you said is certainly responsive to this problem and I respect your judgment. Some have said, as you know, that we can't get the payroll tax beyond 10 percent. I know that one who said it, Secretary Ribicoff, didn't mean 10 percent as an adamant figure. He was pointing to a point at which he felt that you really had to start to look, and I use that as a place to certainly set up warning signals.

Would you agree that we are getting into the area where this payroll tax might be more than we can handle, or do you have no judgment?

Mr. Gordon. I believe in the general line of thinking, Mr. Curtis, that one is always better off to move by small steps and then look around and see what has happened since the last step and what the special problems are that appear to loom in connection with the next step.

I would think that this would have been a wise policy to pursue ever since the social security program began, to move by small steps and to examine the effect that changes of payroll taxes have on the economy and to determine whether there is a defect before taking the next one.

Mr. Curtis. I am glad to have that on the record, at any rate, because I do myself think that we just can't assume that we can pay for this through increasing the payroll tax without at least looking to what guidelines we can look to in what economic impact the payroll tax might have.

Let me go to another big area where I think we must look at the payroll tax and what it might be doing, and that is this problem we have in unemployment, which as far as I can see is predominantly a problem of structural and frictional unemployment. We have already, and this is a healthy thing, I think, built into our system an encouragement to automation, replacing manpower with machines, and of course a payroll tax is a deterrent, is a drag, on job creation in this context.

There is no tax on a machine. Again this is a gradual thing. Where does the payroll tax reach a point where this drag becomes significant on job creation, or, turning it around, where it becomes significant in replacing manpower with machines?

This is the other economic aspect I would like to have you comment on.

Mr. Gordon. In this connection of course, Mr. Curtis, the payroll tax is just one element and, as we have seen, a very, very small element in labor costs, and it would operate in the manner you suggest only to the extent that any other element in labor cost would tend to operate.

Mr. Curtis. But when it gets to 10 percent and when it gets up to a $5,600 base I don't think you can say that it is a minor part. That is why I say it is a gradual thing.

I think that the payroll tax is a fine tax, like many taxes are, if kept in its proper sphere and at a proper level, but you can take any tax and overload it, like we did I think with the Federal corporate income tax, and create economic damage, so I am not arguing against the payroll tax as such.

I am arguing that when it gets to a point where it now under these theories will go up even to 11 percent and will go beyond the $5,600 base, it is at a breaking point. I think that probably already we have seen some deleterious effect of the payroll tax which isn't even that high when we include these other things that we have put on the payroll tax like unemployment insurance. This is a significant factor in automation.

Mr. GORDON. Of course we are not talking about a 10-percent tax as an element in business cost, Mr. Curtis. We are talking about a 5.2-percent maximum tax.

Mr. CURTIS. We are not there yet and I think already, though, as I am arguing, we are seeing the impact even though it is at this relatively low rate. We have to project our minds forward in this thing. What will it do in this process if it goes up to beyond 10 percent?

Mr. GORDON. You are asking what would happen to the incentive to substitute capital for labor if the combined tax got above 20 percent?

Mr. CURTIS. Got above 10 percent.

Mr. GORDON. The combined tax. This would mean about 5 percent on the employer.

Mr. CURTIS. What is projected in this bill, which actually goes up to 11 percent.

Mr. GORDON. Of course only half of that constitutes an element of business cost.

Mr. CURTIS. Oh, no. Your employer, in effect, through wages has to pay both, so this is a tax he pays. The economic impact of the tax is 10 percent on wages because the employer gets rid of that cost if he puts in a machine.

We are relating it to substituting, as you say, capital for labor.

Mr. GORDON. I think we are getting into a real thicket here, Mr. Curtis, and I am not sure I know my way through it. I think you are really raising the question of what is the ultimate incidence of a payroll tax.

Mr. CURTIS. You are darned right I am.

Mr. GORDON. I don't know the answer to that. As a matter of fact, of all the areas of dispute in economics that I am familiar with, this area of incidence is the one that leaves me most dissatisfied.

For example, what conclusion do you draw from the fact, which I point out again, that we have had four payroll tax increases in 5 years and yet the rate of increase in labor cost per hour, including both wage and nonwage benefits, has held more or less quite close to the rate of increase in productivity?

Do you infer from this that if the payroll tax had not increased, money wages would have gone up less rapidly? They would have gone less rapidly than productivity? I don't know. But it is not at all clear to me that the whole of the incidence of the employer's half of the payroll tax is on business costs.

Mr. CURTIS. I am not professing I know either. What I am saying, though, is I think it behooves us to look at this and do the best we can to evaluate it, and I would think particularly the administration would, when it came in in 1960, pointing to the fact that one of our problems was unemployment.

They disagreed with my analysis. I felt it was primarily structural and frictional. They said, "No, it is lack of adequate demand." I think the past 4 years have indicated clearly that this is primarily structural and frictional, relating to what we even got a term for, "automation," and I don't think there is any question but what this increased payroll tax has a bearing on it.

I am not saying that this is the crucial thing, but this payroll tax does have a bearing certainly on whether or not you replace manpower with capital. The ultimate for our society, I would argue, is more automation because that is the main way we increase productivity, but in anything you can grow too fast if in the process of growing you ignore these other things. So the payroll tax, though, seems to be an encouragement, and in fact it is an encouragement to further automation, and all I am trying to point out is that if you load too heavily on this at this period you might aggravate unemployment.

That is the question which you have answered by saying that this has not been studied by the administration and you don't have any views or any clear answers.

Mr. GORDON. No; I don't think that is what I intended, Mr. Curtis.

Mr. CURTIS. All right.

Mr. GORDON. All I did intend to say was that I don't have any answer to the question of the ultimate incidence of the payroll tax, which I think is a quite separate question.

Mr. CURTIS. Mr. Ball and Mr. Cohen have said that they have been in consultation with you in regard to the economic impact of the payroll tax. Did you get into this aspect of it in your discussions or did you just confine yourselves to considering the problem as far as increasing prices and then this other element which I am going to just briefly interrogate you on, on this business of the trust fund and the impact it has on the private capital market?

Mr. GORDON. As I remember those discussions, and there were several, Mr. Curtis, they ranged quite widely, dealing with what seemed to me to be all of the important economic and budgetary issues involved in H.R. 1.

I don't remember that the discussion explicitly dealt with the question of the incidence of the employer's share of the payroll tax largely because I don't share your view that the payroll tax constitutes a significant deterrent to the employment of labor and stimulus to the substitution of capital for labor.

Mr. CURTIS. You have answered my question quite responsively and you don't think it is an important factor because of that.

Mr. GORDON. Largely, as I say, because I think we have to concern ourselves with the magnitudes involved. We are dealing here with the maximum employer tax of 5.2 percent; and yet, in any 2-year period, labor costs per hour will rise by more than that. Over a decade, as I say, we are talking about something like a 40- to 50-percent increase in labor costs per hour arising from increases in productivity, and I would consider that a 5.2 percent payroll tax as an element in business cost would be a quite small factor in relation to the other forces which determine the money costs of employing labor.

Mr. CURTIS. I can see we are at some variance. I don't think that the pricing frankly is as serious as I think this unemployment factor is, but we have examined this to my satisfaction to find out the amount of attention you paid to it.

Mr. GORDON. I am not sure that I see the relevance of the earlier point you made to what we are talking about, but I would have thought that the experience of the last 4 years, Mr. Curtis, would be very difficult to interpret as supporting the proposition that our unemployment is mainly structural.

I have always accepted both the structural element and the aggregate element.

Mr. CURTIS. The best answer I can give you is the administration said, "Give us the aggregate demand and unemployment will go below 4 percent," and here we are in one of the most unsatisfactory recoveries we have had from a recession as far as unemployment is concerned. I might add another factor, which is part of this: As far as the balance of international payments is concerned, the two great problems that this administration rightly stressed, I felt, in the 1960 election, "But we are going to correct these two things," and here we are 4 years later and as far as balance of payments is concerned it is, in my judgment, in a disastrous situation.

As far as unemployment is concerned there has been a very unsatisfactory result from it.

Mr. GORDON. On unemployment, Mr. Curtis, there are about 4½ million more people at work today than there were in early 1960 and I would think that if the barriers to expanding employment were largely structural, that is, an inability to match the skills of workers with the demands of employers, it would be very hard to explain where these 4½ million new jobs came from.

Mr. CURTIS. I can tell you and you can look at the record. They come in the service fields. That is where the jobs came from, and you can almost take the decline in agricultural employment over the decade of 42 percent and compare it with a 43-percent increase in the services field.

Could you have a more vivid example of a change in structure? But, Mr. Gordon, I would refer you to the very standards that the administration set up as to what they thought they were going to achieve and the answer is by the administration's standards you have fallen far short, so doesn't that suggest you might review your premise.

Mr. GORDON. There has been a decline in the rate of unemployment from about 7 percent in early 1961 to 4.8 percent currently and an increase in the number of people gainfully employed of 4½ million.

Mr. CURTIS. Don't you as an economist relate that to other periods of recovery? That isn't growth. That is recovery from a recession and in relating that to other recovery periods that isn't a very good record, recovering from a recession.

Mr. GORDON. I haven't looked at those numbers, but I would think that 4.5 million in a recovery period would still stand up very well in comparison with any other period.

Mr. CURTIS. I am used to talking with economists who are talking of comparing apples with apples. I am not talking about what you give out to the public. You can distract their minds. But when economists seem to measure recovery periods, they measure them in respect to other recovery periods, and all I am saying is that as far as unemployment is concerned we have had an unsatisfactory recovery from our unemployment rate compared to other periods of recessions.

Mr. GORDON. I would certainly agree with you, Mr. Curtis, that we have to do better than we have so far, that 4.8 percent, which is the current unemployment rate, is still too high, that we have to reduce it, but I think that that position is perfectly consistent with recognizing the enormous gains we have made in the last 4 years.

Mr. CURTIS. You are relating to one thing and I said how does the payroll tax affect unemployment, and then you were giving me the answer, "Well, we have done pretty well," and I said, "Yes; we have done pretty well in other areas of economic recovery," but I was talking about this one area and saying——

Mr. GORDON. I would say pretty well in that area, but not as well as I would like and not as well as I hope we are going to do.

Mr. CURTIS. Maybe the payroll tax has something to do with it. You don't think it does, but you certainly can't fall back on, as you have done, the kind of answer to say let's not look into the economic implications of the payroll tax.

Mr. GORDON. Mr. Curtis, when total labor costs per hour—including payroll taxes and all other indirect labor costs—are increasing no more rapidly than output per man-hour I would find it very difficult to see how the payroll tax increase has had any significant effect on the employment figure.

Mr. CURTIS. As a macroeconomist you are dealing in aggregates, and I say it is about time we got into some of the details. Particularly in this structure. You can't deal in aggregates. You can be doing very well in certain areas and that compensates for the areas we are doing so poorly in.

To understand a payroll tax one has to dig into the details.

Now, if you want to continue, as the administration has, dealing just in macroeconomics, you will never, in my judgment, come up with proper solutions, but I think we have examined it enough to satisfy me, what I felt all along, that the administration is not weighing or trying to evaluate what an increase in this payroll tax to around 10 or 11 percent might do in this area.

Mr. UTT. Will you yield at that point?

Mr. CURTIS. Yes.

Mr. GORDON. I think we have evaluated it, Mr. Curtis. I tried to do it here.

Mr. CURTIS. You don't think it is important. That is all right.

Mr. GORDON. This is an element in business cost. I think that is an accurate conclusion.

Mr. CURTIS. That is right. You have evaluated it by saying you don't think it is very important, which is a perfectly proper conclusion to reach and points up where we differ.

Mr. GORDON. To put it more accurately, I would say that this is a small factor in comparison with all the other factors which determine the trend of money costs of labor.

Mr. CURTIS. Mr. Gordon, it was small, but not enough so that you thought it was significant enough to put any research and study into it. That is what I want to be sure of. I think I am being fair in saying that you thought it was so small and insignificant that you didn't research and look to see if it might be significant. I think you just presumed that it is small.

Mr. GORDON. I would have thought, Mr. Curtis, that the answers I gave earlier would provide a persuasive basis for the conclusion that the increases in payroll taxes that we have had in the last 5 or 6 years have not operated in the way you fear they may operate.

Mr. CURTIS. No; you haven't at all. In fact, you have just confirmed what I felt all along was probably the case.

I still must say that I am not advancing anything more than a theory because it isn't proven, but I think it is about time the administration began recognizing that what they advance is a theory and not anything proven either. Then we are on the same base, but when one advances theories one continues to look to see what the evidence might reveal, and if the evidence continued to develop along the way I think it has been developing, then it is foolhardy for the Congress in behalf of the people to keep loading onto the payroll tax. I think that Secretary Ribicoff was very wise in pointing up this 10-percent figure, not just from the standpoint of increased prices, and I do appreciate your answer there and I think it has merit.

I point out I thought your answer was too limited, though, and I added the other factors that I thought ought to be evaluated to be really assured that it won't hurt us even in the price end of it.

Then I turned attention to the unemployment area and there your evaluation is that you don't feel that this is a significant factor, and there is our disagreement. Mr. Utt wanted me to yield.

Mr. UTT. I wanted Mr. Curtis to yield on this point of the effect on employment. I think a very simple example of that would be if I have a thousand employees and my production cost on social security alone would be $230,000.

Therefore, I am going to look around to find a way that I can let 30 men off in order to save that $230,000 in my production cost, so it would have an effect on even a thousand employees, that I would have to let 30 off in order to keep my production cost down to what it was before I had to pay $230,000 a year as my part of the social security cost, and I think that would have an effect on employment.

Mr. GORDON. Well, sir, if you could produce the amount of output you want to produce with 30 fewer employees than you now have, you would have a very good incentive for reducing employment by 30 whether or not there were payroll taxes.

Mr. CURTIS. One other thing for the record. I have constantly referred to the payroll tax as one of the most regressive we have, and the reason being of course that it is only wages and salaries up to a limited figure, $5,600 or whatever it is, no tax on income derived from any other source, such as capital gains, stock dividends, and so on, but also because it is a flat tax.

A bachelor with no dependents pays no more than a person with five children. I simply pose this because there have been some who have said that they didn't think this was quite as regressive as I have described it in these words.

Do you recognize this to be a regressive type, a tax of this nature?

Mr. GORDON. It is certainly a less than proportional tax, Mr. Curtis, less than proportional because you do have this wage base, and wages over the base of course are not taxed, so from that point of view it is on the regressive side of proportional.

Of course, increasing a wage base has the effect of moving it more toward proportionality and away from regressivity. I think the main point that strikes me, though, is that in a program of this kind in which an earmarked tax is used to finance a specific program of benefits, you evaluate the regressivity and progressivity of the total program, not simply the tax half of it; and, of course, there is a high degree of progressivity on the benefit side of this program.

Mr. CURTIS. There was, yes. Of course, if we use these terms we can't use them when we present this matter to the Supreme Court. The Supreme Court if we called this an earmarked tax would, I think, rely on precedents and call it unconstitutional.

Mr. GORDON. If that is the case, withdraw the term, Mr. Curtis.

Mr. CURTIS. You are correct from the economic standpoint, and I think that you are right that the payments out are somewhat proportional, but the tax still is of this nature. If you could finance these same kinds of benefits through a progressive tax you would not have that.

I happen to share Mr. Mills' views that, for other reasons, because of expenditure controls, there is this advantage. Nonetheless. I am not much of an admirer of some of these big corporations that have suddenly realized that they can pass off from the corporate income tax over on to the payroll tax part of the cost of financing the retirement of their employees. They deal in dollars and cents and I think that actually the substitution of a payroll tax for the financing is a real step backward.

Many of our corporations, thank goodness, through the incentive that the labor leaders have given them are writing health insurance benefits for their retirees and, in effect, that is financing through an indirect way.

It is financed through the corporate income tax, because they are forgiven that amount. That can be deducted from it, and they see that they can remove that kind of cost and put it over on the payroll tax. I think it would be better in the long run for the Government to encourage the development of the pension plan technique of extending to health insurance, prepaid, because they are funded, and carry over to the nonworking years. This is the reason I offered a bill which is now law, which permits the corporate pension plans to put into health insurance and not lose their tax exempt status, which might have been the case but for this legislation. The UAW contracts that were just entered into availed themselves of this new law to assist in the main thrust. There are some very fine health insurance benefits in the recent UAW contracts.

This is why I wanted to point up the difference between these two taxes and why I think the thrust of the administration should be along this other line.

Finally, your prepared statement relates to the theories behind the financing of the benefits, which is now, as I interpret it, that the reserve fund is only a sort of contingent reserve. You do agree with the Advisory Council that this fund should not be built up too heavily because it will take from the capital markets at the time?

Am I right in that theory?

Mr. GORDON. I don't believe I addressed myself to that question in my statement, Mr. Curtis. I accepted the financing plans which are projected for H.R. 1 as sound plans and talked about the various ways in which we could adapt the total fiscal policy of the Federal Government to the fact of this financing plan.

Mr. CURTIS. On page 4 you say:

> For example, a $4 billion net accumulation in the trust funds would yield a balance in the consolidated cash budget even though the administrative budget were $4 billion in deficit. This means that the administrative budget deficit would be financed without drawing any funds, net, from the capital markets—

and so forth.

I was relating it to the Advisory Council's recommendation that they would not in the period when you would be adding $4 billion to the reserve fund if we didn't change these tax schedules, but you were approving of that fiscal theory.

Mr. GORDON. I am afraid I can't agree with that, Mr. Curtis. I don't mean to suggest I disagree with it. I simply was not addressing myself to it.

Mr. CURTIS. Oh, you weren't?

Mr. GORDON. I was giving an example of how the focusing on the consolidated cash budget rather than the administrative budget gives you a truer picture of the total impact of Federal financial activity on the economy, and showing how offsetting surpluses and deficits in the trust funds and the administrative budget affects the financing problems of the Federal Government.

Mr. CURTIS. I read more into it then than you intended. I am glad I asked that question to clarify it. The reason I asked it is this, and if you have any judgment on this I would be glad to get it.

When the social security system was originally set up it was on a diffeernt fiscal theory, as I understand it, that they were going to build up the reserve fund and rely on it for income from the investment as bearing a reasonable part of the cost.

Mr. GORDON. Isn't that still the case, Mr. Curtis?

Mr. CURTIS. No; in the recommendations here they say that really interest earnings will be such a negligible part that it should not be a factor. For that reason they are suggesting that they cut back the tax rate so that the Government doesn't accumulate in 1 year, for example, $4 billion of reserves to build the trust fund.

Mr. GORDON. I wasn't aware that they had made such a recommendation, Mr. Curtis. My impression was that the projections for receipts and disbursements under H.R. 1 looked toward a situation in which something like 10 to 15 percent of the total payments would be financed by interest on the trust fund.

Isn't that correct?

Mr. CURTIS. No; I think that you find the main thrust in this report of the Advisory Council on social security is as I have described it, and I have interrogated on this. I don't think there is any question on that.

Whether they would come to the full conclusions that I am about to address myself is another question.

Mr. GORDON. Perhaps, Mr. Curtis, Mr. Ball could comment on the recommendations of the Advisory Council.

Mr. CURTIS. Yes. I would like to have them stated so you can get the comments on how they actually have presented it.

Mr. BALL (Commissioner of Social Security). Mr. Curtis, I think the Council took more the position that in the short term they did not feel that it was desirable to create a surplus of that size, but they didn't take the position really one way or another as to whether at a later period it might not be desirable to have a significant surplus.

However, this is all within the setting of their saying that they didn't believe that interest income was really a significant issue any longer in the financing of the program because at the maximum under present law the interest income really only supplied from 10 to 15 percent of benefit costs and, on the other hand, going all the way over to solely a contingency fund, a reasonable contingency fund would supply about 5 percent of the total benefit cost of the program. So they said an issue between 5 on the one hand or 10 and 15 percent on the other didn't seem to them any longer a major problem or issue in the financing of the program.

Mr. CURTIS. All right. Actually on page 20 of the Advisory Council's report, I have the language, reading from the top of the first full paragraph:

> Holding the trust funds to reasonable contingency levels instead of allowing them to increase as they would under the present tax schedule, will, of course, means a loss of interest income to the program.

Then skipping down to what I think is the next main thrust, beginning at the next paragraph:

> The Council does not consider the use of interest in the financing of the program to be a major issue. A reasonable contingency fund will result in interest earnings which will supply 4 to 5 percent of benefit costs.

This becomes significant in light of the fiscal theories on which the social security system was first set up where there was talk of keeping the reserve fund to, say, a ratio of 4 to 1 in relation to annual benefits, and that interest was to be—we are using comparative terms—a significant part of bearing the cost.

Mr. BALL. Mr. Curtis, just to complete the record as far as the Council's recommendation there on your reading from the top of page 20——

Mr. CURTIS. Yes.

Mr. BALL (continuing). At the beginning of that paragraph at the bottom of 19, I think it might also be well to include what the Council says there. They say: "The Council believes that reducing the scheduled rates as suggested for the 6 years," after 1966, "would not threaten the financial soundness of the program."

Mr. CURTIS. 1965?

Mr. BALL. 1965; yes, sir. Then it goes on to explain just as you read. Here you see they are talking about the short term. I think, in comment on your last two points, that it is true that there has been a shift in degree from the extent to which interest was going to be relied on to finance the longrun costs of the program as it was originally set up and the law as it is today. Then the need to have a reasonable contingency fund to carry through a possible recession, I think, is a very important point.

I am sure the Council would not think that it needed to be as great as 4 to 1 in order to accomplish that. You remember the trustees always include an example of a serious recession and, in the last report, the present fund survives a very severe recession and the present fund is equivalent to only a little over 1 year of benefits.

Mr. CURTIS. About 1 to 1. What I think they are on now is the theory of a contingent reserve along that line, and of course they get interest, Mr. Gordon. I wouldn't argue that. They get interest from the $18 or $19 billion that they have in the fund, but right now I think we are paying out at the rate of over $15 billion a year.

Mr. BALL. $17 billion.

Mr. CURTIS. Incidentally, I was going to contrast this with the civil service employees' retirement fund which I understand is about $14 billion. That, of course, is more on the basis of what is done in the private sector and is a truly reserve fund, although it may be inadequate.

I understand it is inadequate on that assumption.

Mr. BALL. Mr. Curtis, just to clarify the record there, I don't believe that it would be proper to say that the Council went all the way to saying this should be only a contingency fund. I think it is proper to say that they feel it has to be at least a contingency fund and that they don't think it is an important issue that it be much more, but, on the other hand, completely consistent with what Mr. Gordon was saying, they left open the real possibility that at certain later points in our economic development in the business cycle it might be a very good thing for there to be a substantial surplus built up and they saw no particular problems in that either.

Mr. CURTIS. Is that on the other side?

Mr. BALL. Yes.

Mr. CURTIS. That is a very fair comment. One final thing: I think I am right, but do you know, Mr. Gordon, whether the $14 billion or whatever it is in the civil service employees' fund is invested in Government bonds too? Isn't it limited to that, or isn't it?

Mr. GORDON. Yes; it is. The figure as of the end of fiscal 1964, for the balance in Federal employees retirement funds, was $14.8 billion. That is correct.

Mr. CURTIS. Thank you.

The CHAIRMAN. Mr. Byrnes.

Mr. BYRNES. Mr. Gordon, earlier the chairman talked in terms of the budgetary restraint that followed from the payroll tax as we have had it on social security, the tax being a limitation in a sense on the benefit side.

Would you agree with me that this restraint isn't necessarily due to the inherent nature of a payroll tax, but to the earmarked feature of the tax; that is, the relationship between a tax, no matter how it is raised, and the specific benefit it provides?

Mr. GORDON. Yes; I was just thinking, Mr. Byrnes, we do have something like that in the highway fund.

Mr. BYRNES. Yes.

Mr. GORDON. We have an excise tax in effect which is—and apparently there is some objection to the word, but I consider it an "earmarked" tax for the financing.

Mr. Curtis. No objection, I agree with you. I simply say that I really think an earmarked tax is unconstitutional.

Mr. Byrnes. My point is this: Nothing inherent in the nature of the payroll tax causes the restraint. It is the tying of a specific benefit to a specific source of revenue that provides the restraint.

Mr. Gordon. I think that is the central point, Mr. Byrnes. There might be some problems connected with the type of tax and its predictability over the long period of time. I suspect, for example, receipts from the payroll tax are probably more accurately predictable over a long period of time than some other kinds of taxes. Take the other extreme, corporate income taxes, where predictability is very low.

Mr. Byrnes. Of course isn't that normally the case with a regressive tax as far as that is concerned? That is a test of its regressiveness?

Mr. Gordon. I think it is related to it, sir.

Mr. Byrnes. Like brothers and sisters. One of the problems, as I see it, is not the payroll tax as it applies to the old-age and survivors and disability insurance system where the benefits that are paid are wage-related benefits. My problem arises when we use the payroll tax to finance a non-wage-related benefit. You pointed out that the benefits under the OASDI program were progressive to some degree and that you did have a little progressivity in terms of the payroll tax itself because it wasn't just a flat tax such as we would say is a poll tax with a specific figure.

I suppose that is the most regressive tax that anybody can figure out. I assume a property tax becomes such to a degree except there you do have the progressivity that comes from the valuation, and in the payroll tax you have the progressivity that comes from the amount of the wage with a cutoff point so that, except for a poll tax, the payroll tax becomes the most regressive kind of tax that we have on the books today; does it not?

Mr. Gordon. No; I wouldn't think that is right.

Mr. Byrnes. Give me an example of a more regressive tax other than the poll taxes that are applied in some States.

Mr. Gordon. I will readily confess I never tried to classify all taxes according to their relative regressivity or progressivity. But since budget studies show that the lower the family's income, the higher the proportion of income they spend on housing, this would suggest to me that real property taxes are more regressive because of the fact that the relationship of a person's income to the value of the house he owns tends to be greatest at lower incomes and lesser at higher incomes.

If that is the case it would seem to me that you have here a more regressive tax. I wouldn't argue this very strongly, but the payroll tax is proportional to income up to a point.

The proportionality stops when you hit the wage base, whereas in the case of real property tax, if a low-income family spends a higher proportion of its income on housing than a higher income family, even though taxes are related to the value of the property, the tax paid in relation to income is greater at lower income levels than at higher income levels. I think that is correct.

Mr. Byrnes. We might argue along that line, but what if I concede, which I did, that the real property taxes were very regressive? If you are going to list that as the second most regressive tax, for the sake of this discussion let's say I won't contest that. Certainly the next regressive tax has to be the payroll tax that we are talking about here, imposed for a fixed service benefit; namely, medical care. Can you think of any other tax that is more regressive than that that we have on the books today?

Mr. GORDON. Perhaps we had better agree, Mr. Byrnes, on what we mean by regressive. I think I mean by a regressive tax a tax such that the relationship of the tax to a person's income is greater the lower his income.

Is this what you mean by a regressive tax?

Mr. BYRNES. You better give me that again.

Mr. GORDON. The relation of a tax to a person's income is greater the lower his income. Isn't that the definition of a regressive tax? Then I would say also that the tax on cigarettes is more regressive than the payroll tax because there doesn't seem to be in my experience much relationship between a person's income and the number of cigarettes he smokes.

Mr. BYRNES. There you have a tax that is avoidable by simply not smoking. At any time tax is applied on a product you may or may not use, or in the proportion that you use it, the individual has a free choice. The tax will vary according to the individual's needs or desires. That is the one problem I think that you get into if you use that as an example and it is the problem that we always get into when we talk about sales taxes, whether they are regressive or progressive, because of the degree to which a person may decide to buy particular items and the valuation of the items that he buys, whether he buys linoleum or an oriental rug.

The CHAIRMAN. Mr. Byrnes, would you yield to me there at that point? I thought in the past I had heard you describe the retail sales tax on fur coats as being a regressive-type tax.

Mr. BYRNES. No, I never did that.

The CHAIRMAN. Oh, didn't you?

Mr. BYRNES. No, no.

The CHAIRMAN. You used some other argument then?

Mr. BYRNES. That was a different argument.

The CHAIRMAN. All right.

Mr. BYRNES. I don't think we want to encumber this record with a discussion of retailers excise taxes. The committee will be getting into a discussion of that matter and at that time I will make my argument with respect to furs, which will not be on the matter of progressivity versus regressiveness.

However, the only reason I brought this up was that I didn't want to leave the record stand with the idea that it was the payroll tax aspect that produced the restraint on the benefit side; the fact that it was an earmarked tax related to benefits produced the restraint.

Mr. GORDON. I think the highway fund is a good example of another kind of tax which operates in essentially the same way.

Mr. BYRNES. The what?

Mr. GORDON. The highway fund.

Mr. BYRNES. Yes, so that you can have a restraint produced simply by the earmarking rather than by the type of tax that you use.

Mr. GORDON. That is correct.

Mr. Byrnes. I thought we ought to be clear on that. If we are going to use budgetary restraints as the basis for using an earmarked tax to finance the program, we should develop consistency as to where we earmark and where we don't, where we use general fund taxes and where we don't.

We have enacted general welfare legislation—the Kerr-Mills. We finance Kerr-Mills through general taxes. Shouldn't we say that Kerr-Mills, or veterans benefits, or anything else, should be financed through an earmarked tax, if we are going to use budgetary restraint as a basis for justifying an earmarked tax to finance a medical care program.

Mr. Gordon. Doesn't this leave out the contributory element, Mr. Byrnes, in the other examples you have given?

Mr. Byrnes. What is contributory in the system? It is proposed in H.R. 1 to provide a benefit for all people who are today over 65 with no participation on their part, and give them the same package of benefits given to someone 20 years from now who has paid the new tax that would be imposed under this system. This is not a funding proposition.

You are collecting what is essential this year, or next year, or the year after, to pay the beneficaries during that period of time. We are theoretically doing the same thing as far as the veterans benefits are concerned.

We are going to have the general taxpayers when that time comes produce enough money to pay for those benefits. Where is the prefunding?

Mr. Gordon. Let me say that I am not sure I can give as good an answer to this as Mr. Ball could. It would seem to me that this is the problem you encounter any time you are launching a new program of this kind.

The permanent financing features, it seems to me, are highly contributory in nature, but I suppose you always must face the problem of what you do with people who would have been qualified if the program had started 10 years ago but are not on a contributory basis when the program begins.

Haven't we had previsely this experience with the OASDI program; namely, coverage of some people who were close to retirement age even though their own contributions have been very small?

Mr. Byrnes. We pay benefits today proportionally far in excess of a recipient's contributions present beneficiaries exhibit wide variations in the relationship of the benefits they receive to the contributions they have paid. There is no question about that, but here we don't require a beneficiary to pay even 1 penny. Every social security recipient had to pay something, and we have been having a discussion over people who had paid something but don't get anything under the formula that we devised.

However, I wonder whether the concept of prepayment is based on the idea that under the OASDI program and the social security program everybody has at least paid something, where under the income tax some people may never pay an income tax. Beyond that I have great difficulty in finding where the prepayment exists because the benefit is not, even under the OASDI program, completely tied down to what the individual has paid or that he has prefunded his benefit. I think this creates a problem of understanding, possibly semantic. But there is a misconception that the social security tax gives benefits a different complex and gives you something that you paid for.

This constantly gives me great problems in this area, because we can put many other benefits into these packages and say this is what we are going to give people as a matter of right.

Fundamentally I think we look in terms of what we do for our disabled veterans as a matter of right. Yet it is not funded. It is a right we give them because of the service they performed for their Government and the disability they incurred in wartime. You are not going to repeal it and anybody who comes along with a disability is going to get it.

Yet we finance that through the General Treasury, the general taxpayer.

Mr. GORDON. In most of our expenditures in our veterans programs, Mr. Byrnes, there is a needs test; not for the service-connected disabled, but for the veterans with non-service-connected disabilities there is a needs test.

Of course, this would be true also of Kerr-Mills.

Mr. BYRNES. Is that what you base it on, that you don't go to the general fund unless there is a needs test.

Mr. GORDON. I point this out as a very significant difference, the fact that there is a needs test on the larger part of our veterans programs, whereas these benefits are a matter of right.

Mr. BYRNES. But not the service connected. That is automatic.

Mr. BALL. May I comment on that?

Mr. BYRNES. You and I have talked about this, Mr. Ball. I don't mind you putting something in the record, but I don't want to take any more of the Director's time than necessary. I think this is a discussion probably more relevant to the Department of Health, Education, and Welfare and Social Security Administrator than it is with the Budget Director. However, I think it is relevant to the budget, for you have to be concerned not only with the revenue side, but with the benefit side, and the interrelationship between the two. H.R. 1 involves this problem and raises problems of tax philosophy concerning whether benefits should be provided from general revenue or from a specific tax like a payroll tax. I say quite frankly that I can justify in my own mind a payroll tax as it relates to a benefit that is wage related.

In unemployment compensation, we impose a payroll tax, not on the employee, but on the employer. It is related to his payroll, but so are the benefits. The benefits are related to what the individual worker has received in the period preceding his unemployment.

In social security, the other basic payroll tax that we have is imposed, the benefit formula depends on the wage that the person has enjoyed prior to being eligible, either by reason of retirement or disability, or death.

My concern is that H.R. 1 would use this payroll tax, a wage-related tax, to provide a benefit that is not wage related.

(Mr. Ball submitted the following statement:)

REASONS FOR USING THE PAYROLL TAX AS THE SOURCE OF SOCIAL SECURITY FUNDS

The question has been raised whether the advantages that flow from the use of the payroll tax as the source of funds for the social security program could be achieved as well if the program were financed by an earmarked tax of some sort other than a payroll tax, and in fact whether there is some inconsistency in financing the hospital insurance benefits, which of course in themselves are not related to wages, through a wage-related tax. The question has also been raised whether it is appropriate to use a wage-related tax to finance benefits for those who have already retired.

One of the major advantages of the payroll tax, involving as it does employee contributions to the cost of the program that are related to the same element (covered wages and self-employment income) that determines eligibility for and the amount of the benefits, is that the tax encourages fiscal responsibility on the part of the people who are eligible for the benefits. It has been suggested that this fiscal responsibility could be attained through a specific earmarked tax not related to payrolls. In the opinion of the Social Security Administration, earmarking in itself is not as effective a way to promote financial responsibility among the potential beneficiaries of a program as is a method that links the tax to the same element that determines the benefits.

Relating the taxes paid to finance the program, as well as the benefits paid under the program, to earnings assures, first, that the people who get the benefits will be those who pay for them (or their dependents), and second, that the people who get the benefits and pay for them will be aware of the relationship. If contributions were related to something other than the element that the benefits are based on—for example, if the funds were derived from a sales tax—it is doubtful that the taxpayers would relate their taxpayments to the benefits they were potentially eligible for.

It is likely that few people relate taxes they pay on gasoline and tires to the Federal program for improvement of highways, or have occasion to reflect, when they favor the improvement of roads, that driving a car will cost more because of the increase in gasoline and tire taxes that will be required for roadbuilding; yet here the tax is based on factors related to the benefit derived—use of the roads as measured by gasoline and tire usage. Merely earmarking taxes for a purpose unrelated to the source would make the connection between tax and benefit even more tenuous. In contrast, when a worker covered by social security gets a slip in his pay envelope showing how much has been deducted from his pay in social security taxes and how much in earnings has been credited toward benefits he cannot fail to be aware, very concretely, that he is paying toward the cost of his future benefits and that if he wants them to be higher he will have to pay more.

Another major advantage of the payroll tax is that it appears to be an essential element in a system that relates benefits to earnings and bases the right to benefits on the performance of work. If the money to pay the benefits were raised by some tax not related to work or to earnings, it would not seem possible to justify restricting eligibility for the benefits to those with a record of work and their families, or relating the benefit amounts to the amount of earnings that the person has had. Yet it is this work-related nature of the benefits that in large measure determines the character and tone of the programs and the attitudes of people toward the receipt of its benefits. What the person proves when he establishes his right to benefits is that he has worked and contributed to the program and has thus earned a right to a benefit. People view social insurance as an extension of self-support, in contrast with assistance, which is viewed as meaning a loss of self-support. In the same way eligibility for service-connected compensation under the veterans' laws depends on establishing the fact that the person has rendered service to his country and incurred a disability or died as a result of that service—in effect, that the right to compensation has been earned.

Still a third reason for choosing the payroll tax as the source of funds for the program is that doing so makes available to the program a source of financing that is not generally available. A flat rate tax on earnings is not generally feasible as a means of raising revenue, since it places a substantial part of the tax burden on low-income people. Where the tax is related directly to the provision of a benefit, however, a payroll tax is feasible because the low-income taxpayer can be assured that he will get protection related to the same element to which his contribution to the program is related, and—in the case of social security—weighted in his favor.

So much for the general question of whether the social security program should be financed through some method other than the payroll tax. There remain the specific questions of whether the payroll tax is appropriate for a program of hospital insurance benefits in view of the fact that the latter in themselves are not wage related; and whether it is appropriate to provide the hospital insurance benefits to people who have already retired and who, therefore, will not contribute specifically to the cost of those benefits. In the opinion of the Social Security Administration, there is nothing inappropriate about doing either of these things, and in fact there is precedent in past congressional decisions for both.

Most nearly analogous to the provision of hospital insurance to those already retired is the action taken by Congress in establishing disability insurance benefits under social security. The benefits were provided for in 1956, but people who were disabled as early as 1941, and who had not worked in covered jobs since that time, were made eligible for the benefits if they met the other requirements of the law, though they clearly could not have paid specifically toward the cost of the disability insurance protection that was added to the program.

There is precedent, too, for the position that the addition of hospital insurance benefits does not change the wage-related character of the program taken as a whole. Adding hospital insurance protection for the aged to the present program will result in giving the beneficiaries insurance protection worth about $8 a month on the average; in this sense it is equivalent to adding a flat amount to the present benefit sturcture, and thus quite similar to the increases in the minimum benefit that have been enacted from time to time. After the addition of hospital insurance, everyone who meets the insured status requirements would be entitled, at the minimum, to a cash benefit and hospital insurance, rather than just the cash minimum. Cash benefits would, of course, continue to vary in relation to wages above the minimum just as now.

The CHAIRMAN. Any further questions? Mr. Gordon, we thank you, sir, for coming to the committee this morning and making the statement you have and answering our questions in the very fine manner that you have.

You always make a major contribution to my thinking and I would assume other members of the committee.

Mr. GORDON. Thank you, very much, Mr. Chairman.

The CHAIRMAN. Without objection, the committee will adjourn until 10 o'clock in the morning.

(Whereupon, at 12:15 p.m., the committee recessed to reconvene at 10 a.m., Wednesday, February 10, 1965.)

EXECUTIVE SESSION

MEDICAL CARE FOR THE AGED

WEDNESDAY, FEBRUARY 10, 1965

House of Representatives,
Committee on Ways and Means,
Washington, D.C.

The committee met at 10 a.m., pursuant to notice, in the committee hearing room, Longworth Building, Hon. Eugene J. Keogh, presiding.

Mr. Keogh. The committee will please come to order.

Our first witnesses on the agenda are the representatives of the American Hotel & Motel Association, Mr. McDermott and Mr. Packard. We would be delighted to hear any statement you have to make.

STATEMENT OF ALBERT L. McDERMOTT, WASHINGTON REPRESENTATIVE, ACCOMPANIED BY ARTHUR J. PACKARD, CHAIRMAN, GOVERNMENTAL AFFAIRS COMMITTEE, AMERICAN HOTEL & MOTEL ASSOCIATION

Mr. Packard. Mr. Chairman, we have a statement of four pages, but we also have a summary of comments which has been given, I think, to each member of the committee, which will summarize to some degree the four-page statement that I would like to read so that I don't overlook anything that presents our viewpoint.

(The summary is as follows:)

American Hotel & Motel Association,
Washington, D.C., February 10, 1965.

Summary of Comments

SECTION 205 OF H.R. 1

The language of title II, section 205 of H.R. 1 requires an employer to pay a Federal tax on employees' cash tips for social security purposes and to withhold funds for income tax purposes on the said tips. The hotel-motel industry has never objected to paying its share of social security tax on payroll. The industry does object to paying a tax and to withholding a tax on cash tips over which it has no knowledge or control.

(1) Neither in theory nor in practice can there be justified an arrangement between two separate parties who have nothing to do with an employer's payroll, but which impose a Federal tax on an entirely separate party, i.e., the employer.

(2) Technical and administrative difficulties would arise from the proposal in section 205 relative to reporting of tips. The bill requires the employer to accept as "gospel" the employee's statement as to the amount of tips the latter receives. This places a responsibility on the employer which he cannot budget, and in effect, requires him to pay taxes on a base deter-

> mined strictly by the "desires" of his employees. There is no means by which the accuracy of the employee's reporting can be ascertained by the employer. Additional work required by section 205 in making up payrolls would be overwhelming. Ten days after the end of each calendar month the employer would be compelled to compute a complete extra payroll for every employee in the tip category.
>
> (3) The innkeeping industry is such that "casual employees"—those employees who may work 1 or 2 nights a month for as many as 10 or more different employers per month—would be faced with filing multitudinous reports. This would result in onerous record keeping for both the employer and employee.
>
> (4) A tremendous burden would be placed on hotel-motel employees as well as employers. The employee is required to "report tips in one or more written monthly statements furnished to his employer." No other taxpayer, to our knowledge, has this tremendous burden.
>
> (5) Declarations by young workers, or females contemplating marriage and removal from the labor force, may be nominal. Those approaching retirement will be inclined to declare substantial income so as to secure maximum benefits. This may prove a danger to the social security system and is unfair to the employer who is forced to serve as a "middleman" and to the public.

If a tax on tips is to be imposed for social security purposes, the most logical, beneficial and least complicated way of handling the matter is to consider such tips as true self-employment income. The employer would pay his share of the social security tax on the employee's regular wages. The employee would declare his "tips" as self-employed income. The employee's tax on self-employment for social security purposes would only apply to the extent that his regular wages did not reach the required dollar base per year. There would be less paperwork for the employee, the employer and the Government.

The language of section 205 appears to us to raise some doubt as to the present requirement to pay social security taxes and to withhold on tips distributed by an employer. In addition, we question the continued liability of an employer for withholding taxes even if the withholding provision is deleted from the bill.

Mr. KEOGH. We will be pleased to hear anything that you might want to say.

Mr. PACKARD. Thank you, Congressman. My name for the record is Arthur J. Packard and I am president of the Packard Hotel Co., with headquarters in Mount Vernon, Ohio. I am chairman of the Governmental Affairs Committee of the American Hotel & Motel Association. I am also president of a chain of small hotels and motels out in the Middle West.

We deeply appreciate the opportunity to discuss with this committee section 205 of H.R. 1. This section in the bill has created nationwide concern in the innkeeping business.

We have never objected to paying our share of the social security tax on payroll. The point is, however, that tips received directly by an employee are not and should not be considered payroll. Neither in theory nor in practice can we justify an arrangement between two separate parties who have nothing to do with an employer's payroll, but which imposes a Federal tax on an entirely separate party; namely, the employer.

My association is keenly aware of the responsibility to its employees in finding a way by which the vicissitudes of life can be more adequately met for the older persons, or for widows and orphans. We are anxious to see our employees enjoy all the golden years that we talk about in the future and in this connection we are constantly attempting to improve and expand our retirement and pension policies.

We will continue to make every effort to do this regardless of your decision on this present bill, although every increase in payroll tax necessarily limits our ability to perform in that particular field.

However, ladies and gentlemen, we must object to a law which would require an employer to accept an employee's statement as to the amount of tips he received. This is tantamount to asking an employer to incur a responsibility which he cannot budget and to pay taxes on a base of which he has no accurate knowledge and over which he has absolutely no control.

A hotel-motel employer has no more knowledge of what his employee receives in total tip income than you or I know as to how much a minister of the gospel gets in "gratuities" over a year's period; than a shoeshine boy receives "in tips" in a day; than a barber receives "in gratuities" in a week's time; or that a taxicab driver receives "in tips" in a period of an hour.

It just doesn't seem right under these circumstances to place an employer in a position of accepting a statement of tips received from an employee and at the same time require the employer to accept such a declaration as gospel. Actually, the employer has no way of knowing whether or not the employee's report is real or phony.

The bill will require that separate records be maintained for each tip received by an employee, even those who are maintained on a temporary basis such as extra waiters or waitresses. These extras or casual employees are ofttimes here today and gone tomorrow. It appears from the bill that if extra waiters are engaged in a given month and the total tips that they receive while working for a particular employer exceeds $20, the waiters would have to furnish the employer with a declaration of tips for that month.

If the employee does not work a sufficient number of days in the month to warrant a $20 declaration, then there is apparently no requirement for the employee to give the employer a declaration for that month.

The employer, therefore, cannot rely on a tip declaration given him in one month to aid him for the purposes of tax in the next month. It is necessary for the employer to get monthly declarations for taxes during the year in order to properly withhold income tax and to report for social security tax purposes.

This, of course, is only the employer's side of the problem. I admit that. However, just think of the record an employee must keep. He must keep a daily record of every place he works, and when during a given month he has received $20 in tips, he must make a report of such tips to the employer involved.

We presume that an employee would be obligated to make tip declarations for each employer for whom he works and from whom he has received in excess of $20 in tips. It could very well be that a tip declaration would be given to an employer for whom an employee has less frequently worked so that there would be very small cash wages out of which withholding tax could be deducted.

We, frankly, do not know how the social security tax would be worked out for an extra waiter working for several employers during a month. It certainly would be improper, small as the amount might be, to impose a social security tax on an employer for tips earned during the course of an employment by another.

It is likely that in certain circumstances the withholding tax on tips would exceed the cash wage paid by the employer to the employee. The untenable nature of the employer's position is apparent to all of you, I am sure. The employee would receive a tax receipt instead of a cash wage. The detriment to the employer-employee relation is clear on its face. You can imagine what will happen when an employee who obtains substantial income from tips finds out that he is no longer entitled to his regular wage for a certain payroll period because his share of social security tax plus withholding has reduced it to zero.

The problem will be even more difficult if the employee does not have sufficient wages or other funds made available to the employer to cover his tax on his declaration. Take the employee who has little or no regular wages but relies solely on tips. As he files one or more monthly written statements of tipped income, as he could do under the bill, and fails either by design or accident to provide sufficient funds to cover withholding or the social security tax, the employer is placed in an awkward and extremely difficult position. We can't hire a tax collector, ladies and gentlemen.

Nor, do we believe that the answer provided in the committee report last year on H.R. 11865 will serve to promote good will between employers and employees. There it was stated (in H.R. 11865) that in such a case the reported tips would not be considered as "reported." We firmly believe that section 205, if enacted, will create tremendous discord in employee-employer relations.

Our contention that an employer will be faced with paying a tax at the whim and fancy of an employee finds support in the fact that a young worker or a female contemplating early marriage and retirement from the labor force will be inclined to report little if any tip income.

However, those employees approaching retirement will be inclined to declare substantial tip income so as to obtain maximum benefits under the social security system.

Moreover, an employee who in 1 month has suffered a serious illness in his family or has added expense in his household, or has had a bad day at the races, could very easily declare a minimum tip income. The next month with reduced household expenditures or a good day at the races, he could double or triple the amount of tip income to his employer.

The language in section 205 of the bill would seem to imply that tips would only constitute wages where such tips are included in a written statement to the employer. Perhaps we have missed an important reference in the bill but the question does arise as to whether or not an employer who distributes tips to his employee is required to withhold and pay a tax for social security purposes.

We dislike both the social security tax and withholding provisions in this bill. However, even if the withholding provision were deleted, we would still not be sure of the employer's liability to withhold taxes on tip income. The reason for this is that section 3403 of the Internal Revenue Code specifically makes the employer liable for withholding taxes on wages.

Under this section, if an employer requires an accounting from an employee for tips, these may become wages for all purposes and the employer is required to withhold on them or face liability for payment himself.

So the question is: If the withholding provision in section 205 is deleted, would the language of that section still indirectly require the withholding of income taxes based on tipped income?

We strongly believe that if a tax on tips is to be imposed for social security purposes, the most practical, beneficial, and least complicated way of handling the matter is to consider such tips as true self-employment income. This would avoid disputes between employer and employees; avoid disputes between unions and put the employees on their own to pay taxes and to receive benefits based on the taxes that they pay.

There would be no difficulty in the computation of tax. The employer would pay his share of the social security tax on the employee's regular wages. Annually, the employee would declare his tips as self-employed income. The employee's tax on self-employment income for social security purposes, may I remind you, would only apply to the extent that regular wages did not reach the required dollar base per year.

We firmly believe that the amount of tip income that an employee receives from a third party should be a matter between him and his Government. Nothing can be gained and only discord and confusion can follow by attempting to make an employer a "middleman" between a hostile type employee and his Government.

That basically, Mr. Chairman, is the position of the hotel industry in the country.

Mr. KEOGH. Thank you very much, Mr. Packard. Are there any questions?

Mr. BYRNES. Mr. Chairman.

Mr. KEOGH. Mr. Byrnes.

Mr. BYRNES. Do you people have any figures on married employees receiving tips whose spouse is also working?

Mr. PACKARD. Oh, yes. I didn't elaborate on that. If I understand your question correctly, Congressman, we have any number of tip employees, the other half of which in the partnership is working. We can't specifically project for you, but this we know is true: That a waitress if she is married and she is helping out or a waiter who is young is not interested in social security at that time so he is not particularly interested in paying into the fund.

It is only when somebody begins to reach the later years of his employment that it all of a sudden dawns on him that he needs this fund and he certainly is going to be more generous in his contributions and his estimates because that is going to affect his retirement income when it comes due.

Gentlemen, you in your wisdom must realize this: That you are very apt to put a strain on the social security fund on that kind of a basis because the only people that are paying into it are those that have passed 60, that is, substantially, in all probability. Psychologically, that is the reaction.

I know it is true of my employees. If I have a waitress who is 25 years old, she is not worrying about being 60.

Mr. BYRNES. It has occurred to me, and I noticed it at least in my area generally, that with respect to a waitress, for instance, maybe a young gal who is contemplating getting married—and most of them do at sometime—her basic concern is more with her husband's social security benefits than her own. Nine times out of ten she will draw social security on the basis of her husband rather than on her social security credits.

I was wondering if you had any factual information that would show what proportion of the people who are tipped employees would be drawing benefits when they are 65 on their own basis and what proportion on the basis of their spouse's earnings record.

Mr. Packard. We have no projection of that, Congressman Byrnes, at all. It is an interesting factor that when the Bureau of Labor Statistics made a wage survey and got into the casual question of tips, and it was only casual, their figures showed that a tipped employee—waiters'-waitresses' average wage was $1.94 an hour. There was nothing being paid in on that kind of a basis, and I can't help but believe psychologically there isn't any young woman in the world working for herself or working as half of the marriage partnership that has the least concern about what is going to happen at 60.

If it does it is predicated on her husband's deduction and his contributions to social security.

Mr. Byrnes. I am not so much intrigued with the question of whether or not they are concerned. I suppose any individual 25 or 30 is not as much concerned about the situation at that time as at 65.

However, I do have an interest here in the question of whether or not the great majority of these people on whom you are imposing an additional social security tax will ever benefit on the basis of their own contributions and their employer's contributions, because they are in the kind of a situation where normally there is another party whose social security benefit is going to be their principal reliance at age 65.

Mr. Packard. I am sure that is true from a practical and realistic standpoint, Congressman Byrnes, that that would be the reaction of those people, and it seems to me that you are diluting the social security fund on any basis except that of self-employment income.

Mr. Keogh. Will the gentleman yield?

Mr. Byrnes. Yes; I yield.

Mr. Keogh. The fact of the matter is if your suggestion of self-employment were adopted you would be diluting the fund further because the fund would receive only 1½ times the employee's share, which is three-quarters of what would go into the fund under the normal circumstances of employer-employee relationship, so your very suggestion of self-employment dilutes the fund.

Mr. Packard. I don't think that from a practical standpoint that is true, Congressman Keogh, because you are not going to get that kind of reporting from your younger employees. You are going to get it from the older employees, but you aren't going to get it from the younger ones; that is, as a practical matter.

I am theorizing on it, of course, but I am theorizing on it based on the fact of my employees, and I know them reasonably well, people who work for us, people who work in our fields.

Mr. Byrnes. There is another factor here that concerns me and that is the relationship between wages for social security purposes and wages for minimum wage purposes.

In our State of Wisconsin there is a rule that tips cannot be considered as wages in determining whether the minimum wage law has been complied with.

It seems to me that we have to try to have consistency. As far as Wisconsin is concerned, I don't know how you could tolerate a situation where tips are wages for the purpose of making the employer pay a tax, but they are not wages from the standpoint of determining whether the employer is paying his employee the appropriate minimum wage.

I am not sure how many States that situation exists in.

Mr. PACKARD. Only in some, Congressman Byrnes. Let me say at the outset we don't think any tipped employee ought to be brought under the Fair Labor Standards Act to begin with, but in my own State of Ohio (which is contiguous to yours, we have a different minimum wage and hour law for service employees and for nonservice employees, recognizing the fact that the individual has a certain self-employment income.

In Ohio if it is 55 cents for service employees it is 85 cents or 87 cents for nonservice employees, recognizing that one man is a self-employed individual. Of course we don't, very frankly, think service employees should be brought under the Fair Labor Standards Act because the same thing applies.

Mr. BYRNES. I understand you don't, but there is certainly every indication that they will be, and they have been at least as far as State laws are concerned.

Whether they come under the national law is still subject to question, but it would seem to me that if we do have such a Federal act and we don't cover tips as part of wages, it is pretty difficult to say that tips should be considered as part of wages for any national law that is passed.

If, however, we are going to include tips as part of wages for compliance with the minimum wage, then it is only logical to include it for social security purposes.

I frankly think this is one of the dilemmas that you have here, and I think the industry also is in a dilemma in that you can have tips considered as wages for one purpose and not have them for another.

Mr. McDERMOTT. I will try to answer that. I don't think our position is necessarily inconsistent, although I have heard this argument many times. We consider the employee self-employed, as to tipped income. We don't want to act as a middle man in the collection of any tax. That is one thing, self-employed.

You get over to the minimum wage and the purpose of the minimum wage is simply to establish a floor. It isn't the prevailing wage. It is a floor, a base, and in the computation of whether that worker is in the so-called area of poverty it is only natural that you consider his whole income.

Mr. BYRNES. I beg your pardon. You don't consider in minimum wage any other income the person is getting in moonlighting on some other job. You just look at what he is getting from this employer on an hourly basis.

Mr. McDERMOTT. If that is the case the Congress should probably consider something like the law in Ohio, taking into consideration the differential, that he does get tip income. There is nothing unusual about it.

Mr. PACKARD. You have another problem too. If you want to get into that ramification about the man who lives at my hotel and who eats at my hotel. Surely, that in some form is income to him. I mean if you want to make this chap self-employed you are getting into ramifications that aren't ever conceived in this bill.

We feed employees. We house employees. We furnish them with uniforms and all the various ramifications in my particular type of business which are actual benefits.

Mr. Byrnes. Thank you.

Mr. Keogh. Of course you better not press that point too far. You might be giving the Service some ideas there. They have enough of them now.

Mr. Byrnes. You are talking about the Internal Revenue Service, as to whether those things should be considered as income?

Mr. Keogh. Yes.

Mr. Byrnes. That is all.

Mr. Keogh. Mr. Burke, of the Commonwealth of Massachusetts.

Mr. Burke. Do you see any problem here where a person is working on another job? He is having deductions made from his salary where he is working primarily and he also works at, say, a restaurant or hotel as a waiter. How would they be able to resolve this limitation on the deductions where there was a ceiling on how much of a salary deduction can be made?

Mr. Packard. It is very conceivable, Congressman Burke, that that can pose bookkeeping problems that are going to be unbelievably difficult.

In other words, not only is the factor that you are working against, let's say, a $4,800 or $5,400 base, whatever ultimately your base may be, but you might like me and you might not like Mr. McDermott, so when you turn in your tips you may turn into me a bare minimum so that my cost is very low. You might not like Mr. McDermott very well. You might be perfectly honest in the amount of income that you received in the form of tips, let us say, but the bulk of which is charged to the chap that you don't like.

You have in the city of New York, as Congressman Keogh knows, what we call banquet waiters. Today they work at the Commodore, the Astor the next day. Many of them have a fixed contract in which their social security and withholding tax is paid through the union, but many of them who don't, put a plate on the table.

At the end of the month perhaps he worked 4 days at the Commodore, maybe 3 days at the Dorset, and maybe he acted as a special waiter 2 days at the Pierre, and 2 days at each of these other places during the course of the month, and every hotelman in the world who employed him is at the mercy of that man's discretion as to how much he made at those particular places and how much is my share and how much is his share to pay.

Mr. Burke. What kind of a problem would it present, say, to a hotel where they have other service employees such as hat check girls, and parking lot attendants and hotel maids receiving tips? Would they resent it if they weren't included in this?

Mr. Byrnes. They are.

Mr. Burke. Are they included?

Mr. Byrnes. Yes.

Mr. Packard. As I understand it, they are included in this bill.

Mr. Burke. Are all those employees included?

Mr. Keogh. Are you laying the basis for objecting to this provision?

Mr. Burke. I am not objecting. I am asking questions for information.

Mr. Keogh. It covers all of them.

Mr. Burke. I am asking questions for information. Do you understand that all service employees are under this bill?

Mr. Packard. It is my understanding that all service employees are.

Mr. Burke. Sleeping car porters, bartenders, gas station attendants, taxicab drivers, hotel doormen, tourist guides, hatcheck girls, parking lot attendants, hotel maids?

Mr. Packard. As far as who constitutes a tipped employee outside of the hotel business, other than the barber and the cab driver and so forth, there are many phases that perhaps I don't know about from Mount Vernon, Ohio, that would be true in the city, but we recognize it as a fact that the law applies to every service employee in our business.

That would be waitresses and waiters, bellmen. It applies to maids and bartenders, to doormen, anybody who receives tips. At the same time you get to another point, Congressman Burke. If you leave a tip for a waiter and he is busy, a certain portion of that tip goes to the busboy who clears off the table for him. Maybe some of it goes back to the kitchen to the pantrymen.

The gentleman from the National Restaurant Association can tell you better about that distribution in the back of the house than I can, but I do know this: Every captain, every headwaiter, every waiter, every busboy, gets a bit out of that tip. So now it becomes a matter of enlarging constantly the reporting that must be done.

We are getting into a bookkeeping area, gentlemen, that is going to be quite a problem not only to us, but to the employee as well.

Mr. Broyhill. Mr. Chairman.

Mr. Keogh. Mr. Broyhill.

Mr. Broyhill. I would like to follow through on this moonlighting question. I want to ask Mr. Ball a question about it. In the case of an employee, a waiter, who might be waiting on tables at night as a second job, and let us say, for example, this employee is making in excess of $5,600 a year at his prime source of employment and he is having social security taxes paid for him and he is paying into the system, under section 205 his employer at night would be required to also pay social security for him and deduct social security for him; is that correct?

Mr. Ball. Yes, Mr. Broyhill.

Mr. Broyhill. All right. Now, the employee in the filing of his tax return could get a refund on the excess of $5,600 on which social security was paid; is that correct?

Mr. Ball. That is correct.

Mr. Broyhill. Can the employer?

Mr. Ball. No.

Mr. Broyhill. So there would be a payment into the fund on the moonlighting example or duplication of job example, a payment into the fund by the employer that is in excess of what is needed and required?

Mr. Ball. I don't know that you could say that it is in excess of what is needed or required, Mr. Broyhill, but you certainly described the situation that applies under present law.

Mr. Broyhill. Yes.

Mr. Ball. And that would apply under this bill. The point is that the employer contribution really has not been limited solely to the benefit of the particular employee. He is now paying on some people who have total wages of more than $5,600. This is quite common under present law.

Mr. Broyhill. The question as discussed by two of the committee members certainly indicated to me that this was a vocation in which there was a lot of duplication of jobs, or moonlighting, or part-time employees, which suggests that a large percentage of this particular group do have other jobs on which social security might be paid.

I have another question, Mr. Chairman. I would like to ask it of Mr. Cohen. The administration's objection to self-employment social security is what?

Mr. Cohen. Our objection is twofold, Mr. Broyhill. One is the point that Mr. Keogh made earlier; namely, there is a loss of income to the fund and to the system because of the situation in which the self-employed only pays one and a half times the employee rate, or, as pointed out, three-quarters of the total rate, so that you don't get as much income as you would from double the rate where the employer and the employee pay.

Secondly, I think there is also a question as to policy. There have been over the years a number of suggestions made to the committee. Every time we get into some difficult problem, in some area where people can't quite decide whether a person should be included or not included, someone says, "Well, let's solve the problem by covering them as self-employed." I think you would have to go back to the fundamental economic and legal question and not merely by, let's say, a fiction determine whether certain income is self-employed income or not.

I am certain that over the course of the years a lot of people would have been willing, each time an issue came up, to cover domestic employees as self-employed, to cover agricultural employees as self-employed, and when we had the problems of certain fringe groups in State and local government employment, to cover them as self-employed. So I think our position as a matter of policy is that even apart from the financial question, it would not be sound policy to declare certain remuneration self-employed income if it really and truly isn't self-employed income.

I appreciate that there is a matter of argument there, but really what I am saying, Mr. Broyhill, is we would be extremely unhappy, and feel it would be an undesirable step, to create the legal fiction of covering income as self-employment income if it truly weren't self-employment income.

Mr. Broyhill. Let me ask you a question about that, then. Of course I don't agree with you that it puts domestic employees into the same category as being fringe employees, as waiters, because they are in fact employees.

Of course there is a lot of controversy about that for other reasons, but if the primary objection to the self-employment category for waiters is the fiscal one, then why is the administration so anxious to bring two hundred and some thousand physicians under the program under the self-employment portion, because that likewise will dilute the fund by the same proportion, would it not?

Mr. COHEN. On the question of dilution of the fund, I think we have to take it in two steps.

Mr. BROYHILL. You are getting only one and a half times the basic rate by physicians, the same as you would by the waiters if we brought them in as self-employed.

Mr. COHEN. Let me say first on the matter of dilution, I think you have to take that in two steps. Mr. Myers might want to comment on this from an actuarial point of view, but let me put it this way.

From the standpoint of the fund, the fund is already diluted by the fact that not all of everyone's remuneration is now counted. This is equally true for physicians, for tips, for police and firemen, any group. Because of the weighted nature of the formula the person who is in only part of the time and becomes insured pays relatively less in contributions—or to put it the other way, gets more back in benefits—than if he is in a longer period of time, so any additional remuneration that is covered for people that are already partially covered is not a dilution to the system, but it is a benefit to the system. That is point No. 1.

Mr. BROYHILL. Maybe I used the wrong word. I think you used it earlier.

Mr. COHEN. I think somebody else used it before I did. That is why I used it.

Mr. BROYHILL. However, any group coming in as a solely self-employed group paying one and a half of the base rather than twice the base doesn't help the actuarial aspects of the system, does it?

Mr. COHEN. Not as much as if the payment were double the employee rate. That's the only comparison at that point.

Mr. BROYHILL. But the administration is anxious to bring the physicians into it knowing full well that would be almost entirely self-employed.

Mr. COHEN. First, there is no question that they are bona fide self-employed. Nobody argues the legal question on this, so that is No. 1.

Mr. BROYHILL. If they retire at 65, which you don't expect them to do, but if they did you lose money on them.

Mr. COHEN. Secondly, the reason Congress adopted a rate of one and a half times the employee rate for the self-employed was in part that the age of retirement was later for the self-employed. They felt that the delay in retirement would partially offset, maybe wholly offset—nobody knew the exact relation at that time—the fact that the self-employed were paying less than twice the employee rate.

Mr. BROYHILL. You just stated one of the objections that physicians have to coming under it, which is a rather sound one, wouldn't you think so?

Mr. COHEN. It is a factor to be taken into account but, Mr. Broyhill, the fact that there are also disability benefits and also survivors benefits for young people certainly would give the self-employed doctors on the whole valuable protection. It is the old story, if you look at your protection at 72, you might say, "Well, I never got much out of it." You look at it retrospectively. You say, "Gee, I paid a lot and I didn't get much." But as Mr. Myers, an actuary, looks at it, for a young man coming into the medical profession at 21, the question is: What is the probability of (A) being disabled, (B) dying and leaving several children, (C) retiring at 65, (D) living past age 72?

Being in the system is, I would say, attractive, as demonstrated by the fact that there are a lot of doctors who think so. But if we did cover physicians, and if we did cover tips, Mr. Myers' actuarial calculations show not only that we would not lose money, but the system would have a net gain.

Am I not correct, Mr. Myers, on that point?

Mr. MYERS. That is correct.

Mr. COHEN. In other words, from the standpoint of the actuarial, income-outgo relationship of the system, the inclusion of those two groups would bring in more income than it would result in expenditures.

Mr. BROYHILL. I did understand you correctly that the waiters are in what you call a fringe category as far as being employees? They are fringe?

Mr. COHEN. The waiters?

Mr. BROYHILL. Yes.

Mr. COHEN. I don't know how you use that term "fringe group," but I think that there is no question that the waiter is an employee.

I mean the waiter obviously can be fired if he insults the customer or if he doesn't obey the rules.

Mr. BROYHILL. In what way is he fringe?

Mr. COHEN. The question that comes up is whether the remuneration is wages. That is the point, not whether he is an employee. I don't think anybody has a question that the waiter is an employee. He is an employee of the restaurant or the contractor, or whoever has employed him. That is not the question.

The question is the remuneration that he receives by payment from the customer—is that wages or is it a different kind of income?

Mr. BURKE. Will the gentleman yield there?

Mr. BROYHILL. I yield the floor.

Mr. BURKE. Who makes the determination on where the social security withholding will come from in the case of a person who is moonlighting. Say he works for one firm and he earns $4,800 and then he works for, say, another firm like a restaurant or something in the evenings and he receives $2,000 there. Who determines where this deduction will be paid from? Which employers pays the amount?

Mr. BALL. Under present law, Mr. Burke, and the same would be true under this tip provision in the bill, both employers are required to pay until the wages that have been earned with them equal the $5,600 limit in the bill, or $4,800 under present law.

Mr. BURKE. Who determines the fair amount that each employer should pay within the $4,800. Supposing a party earns, say, $3,000 on one job and he earns, say, $3,500, say, on the other, say a different amount. Who would make the determination of what percentage the employer would pay? Is that in the bill here?

Mr. BALL. Yes.

Mr. BURKE. Does this bill protect an employer from paying more than his share in comparison to some other job the employee might be holding?

Mr. BROYHILL. No.

Mr. BALL. Mr. Burke, I think the point here is the same that I discussed with Mr. Broyhill a minute ago. Let me go back to procedure. The procedure under the bill is the same as in present law; that is, the employer deducts the employee tax from the employee's wages, and pays the employer tax up until he has had, under present law, $4,800, or $5,600 under the bill, even though the employee goes beyond the $5,600 for his total earnings in the year.

Each employer must pay the tax up to the amount of the limitation. The employee can get, through his income tax return, a recovery of any excess that has been deducted from his wages, over and beyond the ceiling of $4,800 now, $5,600 in the new law, which may have been deducted because he worked for more than one employer.

There is no recovery provision for the employer. He is liable and pays up to $5,600 for each employee.

Mr. BURKE. With these taxes he has no recovery whatsoever?

Mr. BALL. No, and, as I say, that is present law and applies to quite a large number of employees and employers now.

Mr. BURKE. What determination is made in the case of a Federal employee? For instance, we have thousands of them here in the District who are working as taxicab drivers and all part-time jobs where they are not members of the social security system. They are in one pension system and then is the employer required to deduct up to $4,800?

Mr. BALL. Yes. They are covered for their work that is performed under social security.

Mr. BURKE. In other words, there is nothing in this bill here that gives an employer any protection whatsoever if he overpays?

Mr. BALL. If you consider that overpaying, Mr. Burke, that is right. It is just like present law.

Mr. BURKE. If a fellow were working for two companies and he earned, say, $4,000 in each company and each employer deducted up to $4,000 in earnings and they deducted for $8,000 in earnings and the limitation is $4,800, someone has paid more money than he should.

Mr. BALL. I think that depends on your theory of the employer contribution. The employee pays, as suggested, only up to $4,800, because he can recover. Whether you consider the employer overpaying depends on whether you think of this employer contribution as tied entirely to the benefits of the particular employee.

Mr. BURKE. If the two employers pay over $4,800 they are paying much more than one single employer would pay if he is limited to $4,800.

Mr. BALL. That is correct.

Mr. BURKE. There certainly seems to be an inequity here. I don't know whether the Department believes it is necessary to write up an amendment to correct that situation.

Mr. BALL. No, Mr. Burke. In the first place we don't think it is an inequity and there is a whole other side to this—administrative feasibility, a point which I think you had in mind when you first raised this question. How to decide what each employer pays in these situations.

It would be an extremely difficult, if not impossible, task to decide who among these various employers should be the one to bear the tax for a particular employee if there were a total limit of liability of $4,800 for the employers.

How you would share that would be very hard to work out.

Mr. Burke. There are some tipped employees that make over $5,000 a year on tips.

Mr. Ball. Oh, surely.

Mr. Burke. And they are working part-time and they are on other jobs that they earn over $4,800.

Mr. Ball. Yes, a few, perhaps.

Mr. Burke. So under the provisions of this bill it is entirely possible that a withholding would be held for earnings up to $9,600.

Mr. Ball. Yes, it is possible, Mr. Burke.

Mr. Burke. And the employee can recover his part of it but there is no recovery for the employer?

Mr. Ball. That is absolutely correct.

Mr. Burke. Don't you think that that is an inequity?

Mr. Ball. No, I don't. It is exactly the way that the law now operates in respect to this same situation for presently covered groups, Mr. Burke. As far as equity is concerned, I don't really see that it is necessary for the employer contribution to necessarily be tied to the maximum wage base of the employee.

Mr. Burke. I am in favor of these employees getting all the coverage they can, but I don't think that we should clobber the life out of the employer in doing it, and that is what you are doing here when you fail to recognize that there are some employers who are going to be paying withholding far above the ceiling that the Congress has placed in the act.

Mr. Ball. You understand that there is nothing about this provision that introduces this problem, if it is a problem, Mr. Burke. This is the way the law now operates in relation to all covered employees, and it happens to a very significant extent now, that employees move from one employer to another, a deduction is made up to the maximum by each employer, and then there is no recovery on the part of the employer.

That is the general situation. This merely continues it.

Mr. Cohen. Mr. Burke, even without regard to arguing the question of the equity, to carry out what you had in mind would mean, among other things, disclosing to the employer income or remuneration received by the employee from his secondary, and possibly his third or fourth jobs.

In order to give the employer some kind of a refund he would have to know that the employee is moonlighting, and what his income is on his second job, and I think that that would introduce a whole series of other inequities and complications.

Mr. Burke. If you had a fellow driving a taxicab wouldn't you like to know how many hours rest he had before you let him take that cab out for 8 hours and drive the public?

Mr. Cohen. I think that is the hacker's commission's responsibility, quite frankly. If they are licensing people who work full time elsewhere, that situation should not be handled by the Social Security Administration.

Mr. Burke. They might license him when he is not having this other job. He might drive a cab all night after working a full day on another job then he has a couple of passengers at 2 o'clock in the morning and he falls asleep and they all get killed.

Mr. COHEN. But he might be driving on Saturday. If that is the hacker's commission's rules that he can drive his hack on Saturday, I don't think the Social Security Administration should start interfering with his right to drive a cab.

Mr. BURKE. I don't say that the Social Security should do this, but I think an employer is entitled to have some information about his employees.

Mr. ULLMAN. Would the gentleman yield?

Mr. BURKE. Yes.

Mr. ULLMAN. This is pretty much a voluntary procedure. The employee pretty much determines how much of his tips he is going to report. I realize there is some science that has been developed by the Internal Revenue people, but I don't see the connection here.

I think insofar as reporting for social security purposes it is very much on a voluntary basis. Tell me this. Would it be possible for a young waiter who was going to make a career of this, and on the assumption that he was going to spend his life in it, to take maximum advantage of the program under the formula provided by reporting only periodically.

Mr. BALL. No, Mr. Ullman, it couldn't work that way. In order to get maximum benefits the individual would have to report maximum annual earnings, and if he reports more than maximum annual earnings he can always recover the contribution, anyway, through the income tax device. I wouldn't want to say that there aren't ways to increase his contribution-benefit relationship by the way he decides to report, particularly in the early years of the program, but the particular illustration that you suggest does not seem to me to offer any such opportunity.

If I may comment on this point in a more general way, it has seemed to us that the method of coverage that is most vulnerable to voluntary reporting, and therefore to any element of adverse selection, either through not reporting at all or reporting only in part, is the self-employment method.

Even though the method suggested in the bill of reporting tips to employers is by no means foolproof on this point, it adds an element of greater control than the mere direct reporting by the employee by himself, without any employer opportunity to compare with other employees and without the employer being concerned about the size of what he has to pay depending on what the employee reports.

Moreover from the standpoint of underreporting, this particular provision puts on the employee a rather significant penalty if he doesn't make the report. You remember that after 10 days following the month in which the tips are paid to the employee, if he has not reported to the employer by that time, not only does the liability shift over to the employee, but he has to pay a double liability, that is, he has to pay the combined employer-employee tax rate. There are elements in this that tie in with income tax, too, that make this system a much tighter system to get tips reported, and reported reasonably accurately, than the alternative method of direct reporting by the self-employment method.

Mr. KEOGH. Will you yield at that point?

Mr. ULLMAN. Just one point and then I will yield the floor.

You are saying that it would not be impossible to beat the system, at least to a degree, by knowledgeable foresight as to where you get the most benefits with the least reporting?

Mr. Ball. I would say that to the extent that this exists, it is very largely in the early years of the program, where a person nearing retirement age who is qualified can by overreporting increase his benefits significantly because of the way the average monthly wage provision works.

Remember, it is an average over the whole period with only 5 years dropped. In the long range operation of the system, he can't just come in at the end and report high wages and qualify for high benefits. He has to do it over a lifetime, and then the contribution-benefit relationship is such that there isn't any particular advantage in manipulating his reporting. But I would agree that at the beginning of the system there is a tendency—which would be even truer for the self-employed than for employees, I am suggesting—of over reporting on the part of older people.

The fact that the person makes himself subject to the income tax at the same time seems to us an important protection, because it is not just the benefit-contribution relationship in social security, but he in effect is saying, "This is also what I am going to pay my income tax on," which of course is a very high rate compared to social security.

Mr. Ullman. Thank you. It is a better system than I thought it was.

Mr. Keogh. I am delighted that you brought out the fact that the provision for the imposition of withholding taxes for income tax purposes is probably the best safeguard we have for over reporting of tips. Mr. Packard, I would like to ask this question.

Can we get a concession from your association that the cash wage levels established for service employees are established with a realization that those wages will be supplemented by the receipt of cash tips?

Mr. Packard. Would you state that again to me, Congressman Keogh.

Mr. Keogh. Well, I am trying to do it as simply as possible. Is it not a fact that the cash wage levels established for service employees are established with a realization that those wages will be supplemented by the receipt of cash tips?

Mr. Packard. That is correct.

Mr. Keogh. So that these cash tips are in fact part of the total wage levels established for service employees?

Mr. Packard. Let me say it is part of the income.

Mr. Keogh. The income?

Mr. Packard. The income established for that employee.

Mr. Keogh. The present law provides that on wages up to $4,800 there should be paid by the employer and the employee social security taxes. My point is, why should the tips of an employee, whose cash wages paid by the employer are low because of the recognition of the receipt by that employee of cash tips, on which cash tips he must now pay income taxes, not be included up to the level of the law, for social security purposes?

Mr. Packard. Well, actually, Congressman——

Mr. Keogh. I am talking about cash tips, which is all, as I understand it, that are covered by this proposal. Nothing else, no meals, no room, no tips in any medium other than cash. Why should they not be covered?

Mr. McDermott. Well, Congressman, I am not going to answer directly, but I will try to answer in an indirect fashion.

A young lawyer goes into a law firm, and is given a small salary, a small wage. He is permitted to do a little bit of outside practice on which he gets income. If his wage that he gets from that employer does not exceed the base for social security purposes, and if he wants to pay a social security tax, he would pay it on the basis of self-employment income. You would not expect that employer to pay it.

Mr. Keogh. But he would be engaged in self-employment with respect to whatever he does outside of his regular office.

Mr. McDermott. Based on employment in that firm, yes; in the firm, you could do it.

Mr. Keogh. But you are not drawing an analogy between that situation and a waiter in a restaurant.

Mr. McDermott. I said I would only do it indirectly. I said I would not do it directly, Congressman, but I think it is analogous.

Mr. Keogh. It is? Well, I do not believe it. With respect to that young lawyer, working in a law firm, receiving a salary on which social security taxes are paid by his employer and the employee, you see an analogy between the relationship that exists between the restaurant operator and the waiter, and the only question is, what does that waiter receive by way of income?

You say only the cash wages that you pay. When you concede that those cash wages are established at a level with a recognition on your part, as well as the employee's part, that those wages will be supplemented by the receipt of cash tips——

Mr. McDermott. My point is it is somewhat similar when a large firm employs a young man and gives him the use of that office, for even outside clients, so to speak. They come in, they use the firm's office, he uses the facilities, he uses the secretary's office, and he gets a little income out of that.

Mr. Keogh. Are you suggesting that the waiter might be permitted by the restaurant operator to bring in some sandwiches to sell?

Mr. McDermott. No; we provide the same space for employment as the lawyer's firm does.

Mr. Keogh. Well, I do not agree with you that it is at all analogous, but I wonder if your attention has been called to the recommendation of the Advisory Council on Social Security, 1965, in this area. Have you read that?

Mr. McDermott. I have not had a chance to read it; no, Congressman.

Mr. Keogh. Well, the concluding paragraph on the recommendation that tips be credited for social security purposes reads as follows:

> The Council is aware that some employers have argued that they should not be required to pay social security taxes on their employees' tips, because they can't count tips in determining whether they meet the requirement of minimum wage laws. The Council has been informed, however, that of the States in which tipping occupations are covered by operative minimum wage laws, only 14 make no allowances for tips. It does not seem reasonable to argue that the fact that tips are not counted toward the minimum wage in 14 States should preclude Federal action to count tips under the basic social security system.

As a practical matter, Federal legislation requiring employees to report their tips to their employers for social security credit would help to remove a major obstacle to counting tips toward the minimum wage.

Now, has your association taken any position in that area?

Mr. McDermott. No; I do not believe it has. In fact, I do not know which employers they talked to, but I do not think they talked to employers in our association.

Mr. Keogh. Pardon me?

Mr. McDermott. I do not believe they talked to employers in our association. They did not talk to Mr. Packard or the American Hotel & Motel Association.

Mr. Keogh. You keep records now with respect to the cash wages paid your employees.

Mr. Packard. The cash flow, yes.

Mr. Keogh. So that the bulk of the records are kept with respect to the cash wages paid, and I do not fully appreciate how the addition of another figure to the amount of cash wages paid is going to result in the terrific complications that you indicate. Would you explain that?

Mr. Packard. From a practical standpoint, Congressman, administratively, you are placing us in this bill under a position of being a tax collector of a tax about which we have no knowledge, and with all due respect to Mr. Cohen's argument, the fact that they will be more apt to report accurately to us than they would on an income tax form, I think that is wrong.

I do not think anybody in the world is going to report, any employee is going to report to me as carefully as he does when he files his income tax report. And when we are talking about disclosing, according to Congressman Burke's question, about the disclosure of what the moonlighter made from his second job that you have no right to ask him to disclose what his earnings are, the very thing that you object to with the fellow who moonlights, you ask us to do, because you want the guy to report to us what his earnings are, from all his various jobs.

And actually, I do not think it is possible for us to get an accurate, honest report from the bulk of our employees as to what they made, where they made it.

Mr. Keogh. Well, Mr. Packard, do you not agree that we have limited the employer's liability to the amount of cash in his hands due the employee? And have we not under certain circumstances stated in the bill, further relieved the employer of any further liability for underreporting or overreporting or failure to report?

Mr. Packard. In the social security field. But in the field of withholding tax, the change in this bill over the old one—in your withholding tax provisions—it is conceivable that we have not——

Mr. Keogh. Let me ask you this question. If we were to eliminate the provision for withholding for income tax purposes, would the section meet with your approval?

Mr. Packard. No. It would be much better than it is.

Mr. Keogh. It would be better. It would be in the right direction?

Mr. Packard. That is correct.

Mr. Keogh. Thank you.

Any other questions?

Mr. Burke. Mr. Chairman, I would like to get back to Mr. Cohen.

Following up my line of questioning on that overpayment, what happens to that money? Is the employee paid a higher rate of social security when he reaches 65?

Mr. COHEN. No; the money stays in the fund for the benefit of these and other people.

Mr. BURKE. The employee does not receive any benefit?

Mr. COHEN. Not that particular employee, but all employees receive the benefit, because the funds are conserved for all of the employees.

On one other point, I would like to say this. I really think that when employees, as many of them do, understand what the whole range of these benefits are, you are going to get very good payment of contributions on tips from the younger employees. The survivorship protection and the disability protection that is in this program is so attractive, so meaningful. What is available to a young person, both in the survivorship benefits and the disability insurance benefits in this program cannot even be purchased by many groups of people in many parts of the country for anything near the cost that is in this system. I think you would find that a lot of the younger and middle-aged people will be glad to pay the contributions on tips up to the $4,800 or the $5,600 limit, because it gives them very substantial protection.

So I do not think we should look at this only in terms of retirement protection. There are three benefits now, and if there is hospital insurance, there will be four benefits, and this covers the whole life cycle from the young man or woman starting to work at 21 till 85.

Mr. BURKE. You do not think it is possible, then, for an employee to inform his employer that deduction up to $4,800 has already been made on another job that he holds, therefore it is unnecessary for any deduction to be made here, because he is not going to benefit by that?

The only one that is being penalized here is the employer who is paying money into the fund for something else?

Mr. COHEN. Well, let me say this. I think you can pass a law that says he should make such a report, but I do not think it would be equitable. Let me give you another illustration.

Let us take, to oversimplify it, a man who works for 6 months for an employer at $4,800, then he changes employers, and he works for another one for $4,800, so he has earned $9,600 in the year.

Now, should the last employer not pay any tax at all, because he has already paid on $4,800, or should they split the difference? Simply because there were two employers in the same period, or in the same calendar year?

I think you get into not only other problems of inequity——

Mr. BURKE. Under the law, you have taken adequate care of the employee?

Mr. COHEN. Yes, because——

Mr. BURKE. But you have given the employers no protection whatsoever.

It is entirely possible that three employers in the year could pay withholdings up to $4,800 apiece, and the employee would get his deduction pack for his other two payments which were overpaid, but those other two employers would be paying a withholding tax that is completely unjustified.

Mr. COHEN. You get into a lot of other problems. The fact of what the employee does or does not do becomes a tax advantage to a particular employer, as against hiring the person for the entire year, and I think that——

Mr. BURKE. Well, do you think it is fair to tax somebody for something that he should not be taxed for? The person should be compelled to pay a tax over and above what we require one employer to do?

Mr. COHEN. Well, there is where I think you get into a problem. I do not think he is being taxed for something he should not be taxed for.

The tax on the employer is an excise tax for the employment of people, and he has employed the person. This has been the rule that has been followed for 30 years.

Mr. BURKE. But it is paid for under the principle that his contribution to that fund is to pay the social security benefits to that individual person.

Mr. COHEN. No, sir. Now we are back into the same discussion that we had with Mr. Byrnes earlier. No, sir; that is not correct.

The employer's contribution is not a contribution for Tom Jones, to pay Tom Jones' benefit. The employer's contribution really is an excise tax——

Mr. BURKE. Let us get back to the employee.

Mr. COHEN. I think this is extremely important. This point has not been entirely understood. It is a very important actuarial and financial point, Mr. Burke. The employer's contribution is not earmarked for a particular employee, it is not earmarked for a particular benefit, it is not earmarked for a particular age group.

It comes into the fund, and it is really used to supplement the employee tax in situations where employees get back more than they pay in. If you did not have that employer's contribution, and everybody got back as much as he paid in, and some people got more, where would the rest of the money come from?

Mr. BURKE. You are also penalizing the employee, in this way. The poor employee might have worked 96 hours a week for several years, and yet, despite the fact that this employer that he worked for, despite the fact he put all this time in, when he gets 65, he does not get any additional payments.

So you are really penalizing the employer and the employee by this system, because the poor employee who has put in all this additional time moonlighting, trying to support his family under the high cost of living, finally reaches the age of 65, and the employer has paid in all these benefits over these years, and that fellow that has made this contribution by his own blood and sweat and tears and everything else that goes with working does not get one penny remuneration from the contributions that his employer has made over the years that he put in this additional time.

Mr. COHEN. That is not correct.

Mr. BURKE. You are really penalizing both the employer and the employee.

Mr. COHEN. That is not correct. A lot of employees get back a lot more than they put in.

This whole system, up to now, as Mr. Byrnes has said many times, is such that employees on the whole, up to now, get back a lot more than they have put in, even counting interest. Where does that money come from? It comes from the employer contribution.

Mrs. Griffiths. Mr. Chairman, I have got the answer. It comes from women who work. That is where it comes from.

Mr. Burke. Do you not think that the employee is entitled to some part of that fund, and benefits, when he reaches the age of 65, where it was brought about as a result of his employment?

Mr. Cohen. I did not quite get you, Mr. Burke.

Mr. Burke. Do you not think that the employee should reap some part of the benefit of that fund his employer has paid in over the years, when he reaches the age of 65?

Mr. Cohen. I do not think in this program we should carry the concept of equity so far as to tie the employer's contribution to each individual employee.

This system that we have is a combination of two principles, and that is what makes some of our problems so difficult. It is a combination of individual equity and social insurance.

Now, if you take one principle and carry it to its logical conclusion, if you take the equity principle to its logical conclusion, each person would get exactly the protection equivalent to the combined employer-employee contribution paid on his wages.

If you apply the principles of social insurance, then what you do is pay benefits, let us say, to the wives of workers without their contributing more than single men.

Now, what this system tries to do is to take both principles into account. It tries to assure individuals a reasonable degree of equity on the employee contribution, and it tries to achieve certain social objectives by requiring the employer to contribute, and that money is not earmarked.

As a matter of fact, in line with Mrs. Griffiths' point, it also redirects the income to certain objectives with regard to people who are married, people who have children, and people who have certain extra hazards in order to meet certain social objectives. I do not think that it is unfair to treat the employer contribution in this way.

Mr. Burke. You do not think it is possible to set up a system whereby an employee can inform the employer a deduction from the maximum amount of his earnings have already been made, therefore it is unnecessary for him to report his tips?

Mr. Cohen. I think we have got such a good administrative outfit under Mr. Ball, we could do anything, Mr. Burke, if Congress authorizes it.

I think the question is not whether we could do it. I think the question is whether it is sound policy to do it.

Mr. Keogh. Are there any further questions?

Mr. Broyhill. Yes, sir, just one question, Mr. Chairman.

Following through on this same subject, as Mr. Ball has stated, this is the present law, that employers have to pay it, even though the employee has come to the full amount in other employment.

But two wrongs do not necessarily make a right, and we can avoid it, in this particular bill, if we put the waiters who are already admittedly in a fringe category into the self-employment category, because if they are, or do hold a second job, in which or on which the full social security has been paid, the waiter as a self-employed person could get back refund the full amount that he paid in as a self-employed, which would be one and a half times the base, where the employee could not get that back, any part of the part that he put up

Mr. BALL. The employee could get it back.

Mr. BROYHILL. And the self-employed could get it back?

Mr. BALL. That is right.

Mr. BROYHILL. He could get the whole one?

Mr. BALL. The difference is that the employer does not get it back; yes.

Mr. BROYHILL. So here is where we would not compound this duplication for this so-called fringe group, by making their alleged employer have to pay. He comes under as a self-employed. He could get back the entire amount, if in fact he does have another position.

That is correct, is it not?

Mr. BALL. Yes, that is factually correct. I, of course, do not agree with the theory, but it is factually correct.

Mr. KEOGH. Well, thank you very much, Mr. Packard and Mr. McDermott.

Mr. PACKARD. Thank you, Mr. Chairman.

Mr. MCDERMOTT. Thank you, Mr. Chairman.

Mr. KEOGH. Admiral Nunn?

STATEMENT OF IRA H. NUNN, WASHINGTON COUNSEL, NATIONAL RESTAURANT ASSOCIATION, ACCOMPANIED BY L. EUGENE JOHNSON, VICE PRESIDENT

Mr. KEOGH. You are recognized, Admiral.

Let the record note that Mr. L. Eugene Johnson accompanies you, sir.

Mr. NUNN. If you please, sir, I am accompanied by Mr. L. Eugene Johnson of Louisville, Ky., who is the vice president of the National Restaurant Association.

Mr. Chairman, for the record, my name is Ira H. Nunn, and I am Washington counsel for the National Restaurant Association. The National Restaurant Association is a national organization representing the restaurant and food service industry.

Through affiliation with State and local restaurant associations, it represents over 110,000 restaurants.

Today, I am also representing the American Motor Hotel Association, an affiliate of the National Restaurant Association with almost 10,000 motel members.

The proposal of section 205 of H.R. 1 is that employers will withhold income and social security taxes on the tips of their employees and will match and pay social security taxes on these tips.

The basis for these transactions will be just what the employees report they have received as tips. Employers need not report tips less than $20 a month for social security purposes, but must report all tips for income tax purposes. The text is not clear, but this seems to me to be what is intended. Employers would not be required to pay taxes in behalf of an employee unless the employer should owe the employee at least that much money, or unless the employee paid over to him the amount by which taxes exceed wages. Nor would the employer be liable for inaccurate or delayed reports by his employees.

Should an employee not have enough funds coming to him to satisfy social security taxes due, the wages would not be counted for social security unless the employee pays that money in to his employer, but income taxes would remain a debt owed by the employee until satisfied or until the end of the year.

It is section 205 of this bill to which the National Restaurant Association entertains objection.

Now, enactment of section 205 would for the first time introduce into our law the requirement that an employer withhold and pay for funds over which the employer never has possession, custody, or control—and of which he does not even have knowledge of the amount.

The employer, in this case the restaurateur, would be required to underwrite the payment and accomplish the collection from sums he never has, solely on the basis of the employees' report.

Employers would be entirely at the mercy of their employees. Employees could report low when young or when not interested in social security or in the payment of taxes. They could report high when approaching retirement, in an effort to increase ultimate payments. There would be no guarantee of accurate tip reporting.

If a waiter is going to falsify his reports now, he would also falsify them under section 205.

Bear in mind that many waiters are young persons—students in many cases—and young married women who regard their work as temporary and do not expect to build up social security equities except as spouses.

Most people have several sources of income these days. Waiters have their basic pay and their tips. Others have a basic pay and income from interest, rentals, dividends. It would be as reasonable to require that we report interest, rentals, dividends to the employer who pays our basic wage or salary in order that the employer could withhold its tax burdens from our wage or salary.

But it is not done that way. Interest, rentals, dividends are another sort of income and are handled by the individual making his own reports to the Government and making his own payments.

A case in point and very like the waiter with his tips is the Federal, State, or municipal court reporter who receives a salary or a wage. His employer withholds from that salary or wage both income taxes and social security taxes, except in the case of the Federal court reporter, whose salary is not subject to social security taxes.

This is like the waiter with his basic wage. Now, the court reporter is allowed to sell transcripts to the public, and this is like the waiter who receives tips from his customers. The court reporter makes his own returns on his income from the sale of transcripts. The waiter should do likewise in the case of tip income. Indeed, he does so now in the case of income taxes.

I think it is little realized on a purely dollars-and-cents basis how expensive the requirement of additional social security payments will be upon the restaurant industry. Using now figures from the Census Bureau—the annual estimated total sales in restaurants where tips are customarily received is $11.6 billion. Estimating tips at 15 percent of sales, the annual additional cost to the restaurant industry by reason of these withholdings would be $88.4 million.

Now, using figures taken from publications of the Internal Revenue Service, we find an annual estimated profit of $676.1 million in establishments in which tips are customarily received. Thus, enactment of section 205 would wipe out immediately 13.1 percent of the profit in food service establishments where there is tipping.

And this loss would occur before we estimate the increased costs and burdens of bookkeeping, recordkeeping, and additional personnel or overtime to do the job which would be required due to section 205.

One of the greatest harms that will come from section 205 if it is enacted, is the harmful effect it will have upon the relations between employer and employee. Employees will not wish to report accurately their tips to their employers. They will not wish to report these tips to their employers at all. They do not want to report anything about their tips to their employers.

And employers are not anxious to be in the position of snooping around to find out.

And even more importantly and dramatically, these relations will suffer, because in the not at all unusual case, the employee will get a greatly reduced paycheck as a result of these withholdings, or even worse, no paycheck at all, but a tax receipt instead.

As an example, a waitress could work 48 hours a week at 75 cents an hour, and receive $5 a day in tips. This is a low figure. And at the end of her week owe $11.56, if she were forced to pay her month's taxes out of one paycheck. If she received $10 a day in tips, and this is not at all unusual, she would not get a paycheck. She would be $36.92 in the hole.

Now, that is an example not of weekly withholdings, but monthly withholdings, in 1 week. Now, even if the tax were withheld weekly, there would be difficulties. Consider the case of a waiter with basic hourly wages of 87 cents, near the national average, receiving $4 an hour in tips, not at all unusual, and receiving $1.25 per day in meals while at work—and these are taxable on a social security basis—he would have a wage due at the end of the week of $34.80, but the tax due for that week would be $35.95, a deficiency of $1.15.

One more important feature, Mr. Chairman. This issue of taxing the tips and dealing with the tips keeps coming up all the while, whenever the Internal Revenue Act or the Social Security Act is opened up for amendment. And I often wonder who it is that really wants it.

I realize that the Internal Revenue Service and the Social Security Administration want it. They want the restaurateur, the small businessman, to underwrite this tax and its collection. They think they would get more this way, and certainly the Social Security Administration will. I doubt that the Internal Revenue Service would do so, because if there are to be falsifications now, there will be falsifications if section 205 is enacted.

But whatever might be realized as increased funds, the collection would be easy for the Government, because we would do it for them.

And I realize also that some waiters nearing retirement would like to increase ultimate social security benefits. I sympathize with that, and suggest it be done in the same way the court reporter sweetens his social security by the sale of transcripts "on the side."

But I do not believe that the rank and file of tipped employees everywhere want this done. At least I think there may be a diversity of opinion on the subject.

We are talking now about many persons who receive tips—not just waiters and bellmen, but barbers, beauticians, parking lot attendants, redcaps, doormen, many others in many industries, including, if you will, clergymen, when they receive gratuities, and I can see many reasons why tipped employees might not want to have taxes withheld on their tips.

There have been cases where labor leaders have opposed the reporting of tips by employees. One such case is worthy of our attention.

At the 34th General Convention of the Hotel and Restaurant Employees & Bartenders International Union held in Chicago April 22–27, 1957, the convention considered Resolution 60 which was submitted by local 17 of Los Angeles.

In this resolution, the members of Waiters Union Local 17 of Los Angeles expressed grave concern with a proposal supported by some affiliates of the international union to institute legislation which would require tipped employees to report their gratuities to their employers.

The purpose of this proposal was stated to be the provision of a basis for obtaining maximum social security coverage—the same as is the purpose of section 205. The resolution expressed sympathy with the objective of the proposal, but resolved, among other things, to appeal to the convention to oppose and reject any resolution advocating the declaration of gratuities to employers.

Resolution 60 was adopted with certain amendments not pertinent here, and Resolution 66 which would urge "amendment of the social security law so as to include gratuities in income reported for social security taxation and benefits according to a formula that can be adapted to the conditions in each State" was not adopted by the same convention.

During debate on Resolution 60, Mrs. Jackie Walsh, of local 48 in San Francisco, supported Resolution 60 and opposed the reporting of tips by employers for a number of reasons, and she said:

> I certainly wish that there were a way to have the law amended, the social security law, which would grant the right to employees to have gratuities considered as any other income other than wages at the end of the year, just as a self-employed person or someone who has a small business is allowed to do, and they then could include in the social security benefits the taxpayment allowed with the greater right then for the greater social security benefits.

Mrs. Walsh was commending the manner in which the court reporters I have mentioned may and do pay upon income they receive as separate contractors in a transaction of which the employer has no part—the sale of transcripts to their customers.

There is another way, under existing law, requiring no amendment to the present act, whereby tips may be made available for social security purposes, and that is by agreement between employer and employee, simple agreement, and this is a method which need not require a revelation of his tip income by an employee.

A contract now in effect between the Hotel Association of New York City, Inc., and the New York Hotel Trade Council, AFL–CIO, and approved after an appeal by the Social Security Administration, effective June 1, 1963, provides among other things:

> All tipped employees except those in banquet departments shall be deemed for each weekly payroll period after said date, to have certified and accounted to their respective employers for an amount of gratuities that they have received which amount when added to their weekly gross salary shall equal $70; and the respective employer shall pay and make deductions for Federal social security tax purposes based upon such sum of $70 per week for each of these employees.

It is also possible under existing law for employer and employee to treat tips as income for social security purposes if the employee accurately reports his tips to his employer. The goal of section 205 of H.R. 1 is to provide social security benefits based on tip income. Yet this goal can be achieved by accurate accounting or estimated accounting already, and no change in existing law is necessary to do so.

In summary, Mr. Chairman, section 205 of H.R. 1 would be very harmful to the restaurant industry, its immediate effect being to wipe out 13.1 percent of the profits of service establishments where there is tipping. The bookkeeping burdens would be tremendous. Employee morale would suffer irretrievably.

Tips can be counted for social security purposes without any changes in existing law, but a change in the law would be necessary to provide the most fair, practical, and equitable solution to this problem.

That change would be to give tipped employees the same benefits now given court reporters. The transactions by which the waiter and the court reporter come by their additional income are very similar. Both are working for their employer and providing an added service.

The waiter and the court reporter are really independent contractors to the extent that they receive their tip or fee. The tip or fee is really outside income. The Internal Revenue Code and the Social Security Act call such income self-employment income.

I think self-employment income is an unfortunate term. It is more the income one receives from a separate contract, and we believe this is the treatment which should be afforded tip income should the committee choose to base social security taxes and benefits on tip income.

Thank you very much, Mr. Chairman.

Mr. KEOGH. Any questions?

Mr. BYRNES. Let me ask something about this contract in New York.

I would like to address this question to the Social Security Administration. Can employers enter into an agreement with their employees that they will not accurately report the income of the employee in determining whether the social security tax applies to the reporting of the income?

What is the rationale of this contract in New York?

Mr. BALL. Mr. Byrnes, the rationale is that we have held over the years that tips under present law can be counted as wages, if there is an accounting to the employer of what those tips are.

Under this agreement, which we first turned down, the union and employers together convinced us that the way it operates is to establish that at the very least, in all instances, these employees would actually receive tips of this amount, and that therefore, since there was an agreement related to what they actually would receive, we would consider it to be an accounting to the employer.

Mr. BYRNES. But this agreement does not say that they necessarily had to receive $70 a week.

Mr. BALL. When we went into that at great length, it was established to our satisfaction that they did in all instances actually receive that much. The reason we had turned it down in the first place was just the point you made, that we could not have accepted merely an agreement without the situation agreed to actually having occurred in all instances.

Mr. BYRNES. Say I am a waiter down at the Willard, and I want to build up my social security. Do I just go to my employer each week and say, "Here's what I got in tips this week, and I want you to report that"?

I cannot do that, can I?

Mr. BALL. No.

Mr. BYRNES. It is only if the employer agrees?

Mr. BALL. Only if the employer requires it.

Mr. BYRNES. Where does that appear? Is that a regulation?

Mr. BALL. It is a regulation.

Mr. BYRNES. Yes.

Mr. BALL. The regulation excludes "Tips * * * not accounted for by the employee to the employer," and we have interpreted this to mean that the accounting is required by the employer, so that an employee voluntarily doing it would not be sufficient.

Mr. BYRNES. Yes. I understand.

Mr. BALL. And actually, this present regulation affects very few employees, except those involved in this New York agreement. This is the only substantial group, because ordinarily there is no requirement of an accounting by the employer, and of course he could not just do it for one employee.

It must be a requirement that is the custom, more or less, in that place of business.

Mr. BYRNES. Thank you.

Mr. BROYHILL. Mr. Chairman?

Mr. KEOGH. Mr. Broyhill.

Mr. BROYHILL. Just to follow through with that question of Mr. Byrnes; in other words, under existing law or regulation, any group of employees could by negotiation with their employer come under social security for the amount of their estimated tips?

Mr. BALL. Yes; that is correct, Mr. Broyhill.

Mr. BROYHILL. So that statement made by Mr. Nunn is correct?

Mr. BALL. We would need to be convinced that the estimate was related to the reality of their tips, of course.

Mr. BROYHILL. Beg pardon?

Mr. BALL. I said the estimate would have to be related to their actual tips. We would need to know that they had received this much at a minimum and that therefore the agreement would constitute an accounting for this minimum amount of tips.

Mr. BROYHILL. Well, actually, that would be the same situation under your proposed section 205, that someone is going to have to make a declaration or an estimate.

Mr. BALL. Well, actually, the employee is required to report the amount of his tips under the proposed bill.

Mr. BROYHILL. Whereas making the situation mandatory, where under existing regulation a mutual agreement by negotiation between the group of employees and the employer can give them or provide them these social security benefits?

Mr. BALL. I think that is generally correct, sir.

Mr. Broyhill. Now, one more question, very quickly, Mr. Chairman.

If I understand it, now, on your page 2 of your statement, Mr. Nunn, I think you made a very interesting comparison between this extra income people receive from interest and rentals and dividends, being in the category on which the individual would have to pay self-employed income or self-employed security.

Interestingly enough, this was proposed, that withholding tax be made on dividends, and was rather substantially turned down by the Congress, yet there is reporting by the payee of the dividends and interest to the Internal Revenue now, as you know.

Mr. Nunn. That is correct, sir. This, I believe, is the same thing, Mr. Broyhill. It is the same thing, except in one case it is tips, and the other case it is dividends or rentals or interest, or sales from transcripts of court reporters. It is the same thing.

Mr. Keogh. Admiral, I have read with interest the last paragraph on page 1 of your statement, and I was under the impression that the proposal contained in H.R. 1 would limit the liability of the employer to the extent of cash wages in his—the employer's—hands, due the employee.

I find it difficult, therefore, to follow you when you assert that section 205 would, for the first time, introduce into our law the requirement that an employer withhold and pay from funds over which the employer never has possession.

I do not follow that.

Mr. Nunn. I mean, Mr. Keogh, that when an employee receives a tip, he in the normal case puts it in his pocket, that is what everyone expects, and he goes away with that. Now, that money never comes into the possession of the employer, nor does the employer know how much it is, and yet he is required from other funds in his possession, namely, the cash wage, to withhold on that. That is what I mean.

Let me say with respect to the beginning of your question, there has been a very good effort made in drafting this bill, and last year, too, to save the employer harmless from liability physically over money that he does not have, you see, but it does not save him from the burden of paying upon something which the employee reports.

He has no definite way of knowing what this is, and that is the first time that our law would have required taking payments for one sum out of another.

Mr. Keogh. Is that not relatively immaterial, when we specifically limit the liability of the employer to the amount of cash held by him due to the employee?

Mr. Nunn. No, sir. It is a tremendous thing. As I said, the employee can report in a minimal way, when he is young, and this will not be accuracy of reporting for tax or social security purposes in that case. He can also report high when he is old, and there will be no accuracy of reporting there, and the employer can do nothing.

He cannot question these reports of the employee, under the bill, nor do we want to, as a matter of fact.

Mr. Keogh. Now, Admiral, is it not a fact that your proposal—no, your suggestion—that under existing law, it is possible to treat tips as income, in fact concedes that the cash tips received by the employee is part of his wages?

Mr. Nunn. Well, Mr. Keogh, yes, and I would like to make this statement with all the emphasis I can; that my association believes that tips, being a substantial part of it, let us call it emolument, of our employees, they should be counted for something for all purposes.

Mr. Keogh. Except as far as the employer is concerned.

Mr. Nunn. No, we think they should count. We think that people should pay income taxes on their tips, and indeed, they are required to do so by their State law and by Federal law, but we do not have to collect on those.

We think they should count for social security purposes, but again, we do not want to collect them.

Mr. Keogh. It is rather difficult, Admiral, to follow your reasoning in connection with what you concede to be part of the wages paid an employee, and then divert to suggest that those wages received by that type of employee can be treated any differently from any other wages received by any other employee in any other industry.

Mr. Nunn. They should be received as are the income of the court reporter from his transcripts.

Mr. Keogh. I understand that.

Mr. Nunn. And as from the ordinary man from his dividends and rentals.

Mr. Keogh. I understand that, but I cannot see the analogy.

Mrs. Griffiths.

Mrs. Griffiths. May I ask, do you know what percent of waiters, or what percentage of those who wait on tables, are men, and of those who wait on tables are women?

Mr. Nunn. I could give, Mrs. Griffiths, an intelligent guess. I have not perhaps looked at it exactly. I think about two-thirds of those who wait upon tables are women, and a little more——

Mrs. Griffiths. Of that two-thirds, how many would you say are married?

Mr. Nunn. Beg pardon?

Mrs. Griffiths. How many are married?

Mr. Nunn. Are married? I do not know. I do not know.

Mrs. Griffiths. May I ask, then, Mr. Ball, what would be the difference between the lowest amount of social security that could be drawn, or old-age assistance? What would be the lowest?

Mr. Ball. Well, of course, Mrs. Griffiths, it would depend entirely on the State.

You mean the lowest social security versus the lowest State assistance payment?

Mrs. Griffiths. Yes.

Mr. Ball. The lowest social security benefit for a person who retires at 65 is $40.

Mrs. Griffiths. And in the same State, what would be——

Mr. Ball. Now, the range of what a person would get in old-age assistance, if he had no other income of his own—my memory is that it begins at about $40 in the lowest State, which I believe is Mississippi, and it would range up to $147 for a person who had no other income in the most liberal State, so it is hard to compare. For one reason, Mrs. Griffiths, the social security minimum benefit goes primarily to people who have been in and out of the program.

A low-wage earner who gets $100 a month when he works gets a social security benefit of about $60, rather than the minimum of $40.

To get a benefit as low as $40 you have to have some of your wages not counted, or be unemployed a great deal, and that sort of thing.

Mrs. GRIFFITHS. Can you identify it for the moment for a waiter, for instance, in New York?

Mr. BALL. What the wage would be?

Mrs. GRIFFITHS. What the social security would be.

Mr. BALL. The minimum wage under the agreement in New York, I believe we just said, was $70 a week, in the New York agreement, or about $290 a month, which would give us——

Mrs. GRIFFITHS. $3,300 a year, I think.

Mr. BALL. You wanted the social security benefit? On $290 or $300 a month?

Mr. COHEN. $300.

Mr. BALL. Just a little over $100 is what the benefit would be on a $300 monthly average wage.

Mrs. GRIFFITHS. What does New York pay in old-age assistance?

Mr. BALL. Old-age assistance in New York?

Now, we do have here, if I could look it up a little later and insert it in the record, what each State pays in assistance, if people do not have other sources of income, and I could give both the range that you wanted before and the specific answer in New York.

Mrs. GRIFFITHS. Thank you.

(Information referred to follows:)

The specific answer on New York is $111.

Monthly amount of old-age assistance payable for basic needs for an aged individual who is keeping house alone in rented quarters and who has no income other than assistance, by State, January 1963

[Amounts rounded to nearest dollar]

State	Amount payable [1]
Alabama	$75
Alaska	110
Arizona	85
Arkansas	65
California	106
Colorado	110
Connecticut	108
Delaware	75
District of Columbia	87
Florida	70
Georgia	70
Hawaii	104
Idaho	110
Illinois	96
Indiana	70
Iowa	94
Kansas	88
Kentucky	80
Louisiana	82
Maine	91
Maryland	84
Massachusetts	124
Michigan	80
Minnesota	71
Mississippi	40
Missouri	70
Montana	$110
Nebraska	70
Nevada	139
New Hampshire	91
New Jersey	$104
New Mexico	98
New York	111
North Carolina	94
North Dakota	94
Ohio	106
Oklahoma	110
Oregon	104
Pennsylvania	97
Rhode Island	87
South Carolina	70
South Dakota	147
Tennessee	55
Texas	81
Utah	81
Vermont	80
Virginia	103
Washington	132
West Virginia	50
Wisconsin	75
Wyoming	100

[1] It is assumed that the individual's actual needs are at least as large as the amount shown.

Source of data: Bureau of Family Services, Welfare Administration, Department of Health, Education, and Welfare.

Mr. BYRNES. Excuse me. Are you through?

Mr. KEOGH. Yes.

Mr. BYRNES. Let me ask what category the Internal Revenue Service places tips in. Tips are not specifically mentioned in section 61, as gross income.

Now, we also know there is such a thing in the law as gifts. Has it been determined that it is income and not a gift? Does anyone know? Is there any information that the Service can give us, or does it come under compensation for services, including fees, commissions, and similar items?

Mr. GUERIN. It comes under section 61, Mr. Byrnes, which is:

> Except as otherwise provided in this subtitle, gross income means all income from whatever source derived, including but not limited to the following items—

So it comes under all income, from whatever source.

Mr. BYRNES. Well, but somebody has decided that while we call these gratuities, they are not gifts?

Mr. GUERIN. That is right.

Mr. BYRNES. Other than that, you do not know what the real determination has been, do you? Whether it is a fee for services, or a commission, or what it is?

Do we exclude, specifically exclude, tips in the Social Security Act?

Mr. BALL. No, Mr. Byrnes.

Mr. BYRNES. If we did, then you could not have a contract like you have in New York, could you?

Mr. BALL. No.

Mr. BYRNES. All right.

Mr. BALL. Tips are considered wages, by interpretation, when the employer requires an accounting of them.

The theory of that was that he would be taking tips, then, into account in setting the cash wage, and it would be considered an integral part of the whole wage structure, and be under the employer's control.

Mr. BYRNES. All right. When a waitress or a waiter files an income tax return with their W–2, which indicates their basic wage, they also show tips. Does the Internal Revenue Service consider that as self-employment income?

Mr. BALL. No, sir. It is not self-employment income, Mr. Byrnes, for the reason that self-employment income can be earned—I am talking about social security, now—only in the performance of an independent trade or business. Being a waiter, he is operating as an employee in relation to this service.

Now, the income that he gets as a tip could hardly be considered to be derived from a trade or business of an independent kind. The service for which he gets tips is performed in an employer-employee relationship.

Mr. BYRNES. Well, it occurs to me that we have an interesting situation. You must define tips in order to consider it as income for tax purposes; some attempt to categorize the nature of the receipt is required.

Now, tips are certainly in a different category than dividends or interest or royalties. They are, I would assume, a payment for services. If they are a payment for services, the recipient is in a trade or business of rendering a service, waiting on tables.

Part of his income comes from Mr. A, his employer, but another part of the income comes from performing that service—apparently his trade or business.

I am just wondering why, through all this period, there has not been some kind of a determination made, possibly, that this was self-employment income.

Mr. BALL. I think we can say what it is not. A negative decision has been made that it is not self-employment income.

Mr. BYRNES. Who has made that decision?

Mr. BALL. Well, we certainly have carried it out in the claims process, and I believe Revenue has agreed with us.

Mr. GUERIN. The regulations under section 61 clearly state that the tips are income.

Mr. BYRNES. Well, that does not tell me anything about the problem.

I want to know what kind of income it is, because in determining applicability of the social security self-employment tax, you have to know what kind of income it is.

The point I am raising here is whether present law may not be interpreted to require this to be considered as compensation for services.

Mr. NUNN. Mr. Byrnes, may I comment on that?

Mr. BYRNES. Yes, Admiral.

Mr. NUNN. The Social Security Handbook has a chapter devoted to who are self-employed, and they list a great many people there, including my court reporter, and they just do not include tips, and——

Mr. BYRNES. Of course that is an editorial writing. There is nothing legal about it.

Mr. NUNN. This is a regulation.

Mr. BYRNES. I am talking about a determination by someone whether this is self-employment income, and if it is not, why it is not.

Mr. BALL. Mr. Byrnes, I think it might be helpful to insert in the record at this point a statement on this, and I would be glad to answer also to the extent that I can at this time.

Being in a trade or business has been interpreted to mean holding one's self out to the public to engage in this trade or business. A person who is employed in a restaurant by an employer to wait on a table does not have the independent status of holding himself out to the public. He is an employee and cannot get self-employment income for the services he renders as an employee.

Mr. BYRNES. It seems to me the Internal Revenue Service is the one that has to make this determination. Let me ask the Internal Revenue Service.

Do you let these people, waiters and waitresses, deduct the cost of their uniforms?

Mr. GUERIN. Yes.

Mr. BYRNES. This is a cost of business?

Mr. GUERIN. Yes.

Mr. BYRNES. That is part of the trade or business, then, is it not? They cannot deduct them if they are not used in a trade or business.

Mr. GUERIN. This is an expense of employment, which is an employment and sometimes treated as a trade or business, for purposes of certain deductions under section 62, and waiters' uniforms, or waitresses' uniforms would be one of these expenses which we can deduct.

Mr. Byrnes. Will you concede that we have here a kind of a fringe, a no man's land, or do you think this is all nice and clear-cut?

Mr. Guerin. Oh, tip employees are in a class by themselves. I think anyone would have to admit that.

Mr. Byrnes. And we have just made certain decisions we thought might be acceptable?

Mr. Guerin. Yes.

Mr. Byrnes. Rather than on any real legal determinations?

Mr. Guerin. These are determinations which have been made in the regulations, Congressman, which are very clear, both under section 61 and in the self-employment area, so that to——

Mr. Byrnes. I understand you have made a decision, but how and why you reached your decisions do not necessarily prove anything, except that the Commissioner has made a determination that he is not going to consider tips as self-employment income, but is going to recognize that the person is entitled to deduct some of the cost incurred in performing services in his trade or business.

It seems to me what you have here is a dual employer situation, in some ways, except there is no contract between the customer and the waiter. The customer pays some commission for the service to the waiter, or whoever the person might be.

Mr. Ball. Mr. Byrnes, I think there really is a much firmer basis for the treatment of tips under the Social Security Act than we have been able to convey as yet.

Let me try again. In self-employment, for social security——

Mr. Byrnes. Why not develop a memorandum on this whole aspect, between the Internal Revenue Service and the Social Security Administration? Let us have it in the record, as to just what the theories are, and the rationales of why, of how tips are treated, and what they are considered to be.

Mr. Ball. Fine.

Mr. Byrnes. Do you see what I mean?

Mr. Ball. Yes, I would be glad to do that.

(The statements referred to follow:)

The Basis for Inclusion of Tips in Gross Income for Income Tax Purposes

In all of the income tax regulations promulgated under the internal revenue laws since the enactment of the Revenue Act of 1918, tips have been included as "gross income." In the current regulations, the pertinent provision appears in section 1.61–1.62(a)(1) under the item described as "compensation for services, including fees, commissions, and similar items." This is 1 of 15 of the more common items of gross income listed in section 61 of the Internal Revenue Code of 1954 for purposes of illustration.

The courts have uniformly upheld the Treasury's interpretation of the code. In one of the leading cases on tips, *Roberts* v. *Commissioner* (9th Cir. 1949) 176 F. 2d 221, affirming a decision of the Tax Court that tips constitute income, the court stated: "The word 'income' has a broad meaning in income tax legislation. Its classic definition is still the all-inclusive one of gain derived from capital, from labor, or from both combined. In tipping, the financial advantage is conferred on the basis of a consideration which is related to service rendered. This makes it clearly income."

Tips have generally been regarded by the courts as compensation for services or as additional compensation. In Roberts, supra, the court made these observations: "Actually, a tip is connected directly with the service and its quality;" "the tips were compensation for personal services;" and "(the taxpayer) received tips as an incident to the service which he rendered to his patrons." To the contention that a tip is defined as a gratuity and should be treated as a gift since there is neither a consideration for nor a legal obligation upon the donor to part with it, the court in Roberts, supra, had the following answer: "from the very beginning of the practice, it was evident that, whether considered from the standpoint of the giver or the recipient, it (a tip) lacked the essential element of a gift—namely, the free bestowing of a gratuity without consideration." The principles enunciated later in *Commissioner* v. *Duberstein*, 363 U.S. 278 (1960) strengthen the holding in Roberts, supra, and have removed all doubts that a tip is compensation for services and is thus includable in gross income. In *J. P. Andrews* v. *United States* (Ct. Cls. 1961) 295 F. 2d 819, cert. denied 369 U.S. 829, the court of claims held on the authority of Roberts and Duberstein that tips received by taxi drivers were includable in gross income and were not gifts.

THE BASIS FOR THE EXCLUSION FROM SOCIAL SECURITY COVERAGE OF TIPS RECEIVED BY EMPLOYEES AND NOT ACCOUNTED FOR TO THE EMPLOYER

The Social Security Act has never specified whether or not, or under what conditions, tips shall be subject to social security taxes and counted toward benefits. Under regulations, however, tips received by an employee and accounted for to the employer have been taxed as wages and counted toward benefits since the beginning of the program, while other employees' tips have been excluded. Also, under Internal Revenue Service regulations, tips received by self-employed people in the course of their self-employment have been included as self-employment income since 1950, when self-employment was first covered under the program. The following is the basis for the regulations governing the treatment of tips for social security purposes.

Tips have generally been regarded by the courts as compensation for services, or as additional compensation, and not as a gift.[1] When the Social Security Board and the Treasury Department were considering regulations to implement of the original Social Security Act, however, it was thought that, since the Congress had not included in the law any special procedures for the collecting of taxes on tips, the Congress would not want to hold the employer responsible for the employee and employer tax on tips unless the employer could follow substantially the same procedure that he followed in reporting and collecting taxes on his employees' regular wages. This would mean that the employer would be responsible for treating his employees' tips as wages for social security purposes only if he had definite knowledge of the amount of the tips and could arrange to collect the employee's share of the tax. Regulations approved in 1936 by the Social Security Board and the Treasury Department reflected this understanding of the intent of the Congress with respect to the coverage of employees' tips. Under these regulations tips paid to an employee by a customer of his employer are wages only if the tips are accounted for by the employee to the employer. This provision in substantially the same form has been carried in the regulations since 1936.

In 1950, when social security coverage was extended to self-employment, the treatment of tips received by self-employed people was not specified in the law. However, a person who is independently engaged in a trade or business has been required over the years to include in his gross income for income tax purposes all income from his trade or business, including tips; and the amount of earnings from self-employment that is counted for social security purposes is, by law, the self-employed person's gross income from his trade or business minus certain deductions and exclusions, which do not include tips. In the absence of a provision specifically excluding tips, a self-employed person's tips are necessarily included in the earnings from self-employment that are subject to tax and counted toward benefits under regulations. Requiring the self-employed person to report and pay social security taxes on the tips he received does not, in the circumstances, make any additional work for him.

Tips received by employees could not, however, be counted as self-employment income. The law specifically provides for the exclusion from self-employment income of income derived from the performance of services by an individual as an employee.

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[1] For example, tips have been included as "gross income" in all of the income-tax regulations promulgated under the Internal Revenue laws since the enactment of the Revenue Act of 1918, and the courts have uniformly upheld the Treasury's interpretation of the law.

It is not customary for an individual to be considered both an employee and self-employed at the same time in rendering a particular service. The two terms are mutually exclusive; that is, an individual in rendering a service is either an employee or an independent contractor, i.e., self-employed. The argument of proprietors of establishments where tipping is a common practice that their employees, whose services to patrons they regulate and supervise, are also self-employed individuals while rendering these same services appears to be wholly without support in law. Legally, the individuals concerned are either their own masters, and thus are considered self-employed, or they are under the supervision and control of the person who hires their services, and thus are employees. In actuality, a waiter is an employee hired to render services to the patrons or customers of his employer in the same manner as a store clerk is hired to sell his employer's goods to customers. Since tips received by employees are compensation for services performed as an employee, these tips could not under present law be included in self-employment income for social security purposes.

Mr. KEOGH. Off the record, now.

(Discussion off the record.)

Mr. KEOGH. Thank you very much, Admiral.

Without objection, the committee will stand adjourned until Tuesday morning at 10 a.m.

(Whereupon, at 12:20 p.m., the committee was adjourned, to reconvene at 10 a.m., Tuesday, February 16, 1965.)

[illegible]

[illegible]

EXECUTIVE SESSION

MEDICAL CARE FOR THE AGED

TUESDAY, FEBRUARY 16, 1965

House of Representatives,
Committee on Ways and Means,
Washington, D.C.

The committee met at 10 a.m., pursuant to notice, in the committee hearing room, Longworth Building, Hon. Wilbur D. Mills, chairman, presiding.

The Chairman. The committee will please be in order.

Mr. Anderson, we are pleased to have you with us this morning and your group. I believe you have Mr. Gettler and Mr. Peterson with you.

STATEMENT OF CYRUS T. ANDERSON, CONSULTANT; ACCOMPANIED BY BENJAMIN GETTLER, COUNSEL; K. PETERSON AND ANTHONY ANSELMO, ASSISTANT TO THE PRESIDENT, HOTEL & RESTAURANT EMPLOYEES & BARTENDERS INTERNATIONAL UNION

Mr. Anderson. And Mr. Anselmo.

The Chairman. All right. Do you want to make the statement, Mr. Anderson?

Mr. Anderson. Yes, sir; about 10 or 15 minutes, if I may.

The Chairman. All right, we will be glad to hear you, sir. We appreciate you other gentlemen being with us, too.

Mr. Anderson. Mr. Chairman and members of the committee, my name is Cyrus T. Anderson. My address is 400 First Street, NW., Washington, D.C. I am consultant to the Hotel, Restaurant, and Bartenders International Union. I have with me Mr. Gettler of our general counsel staff, Mr. Anselmo, the assistant to the president of our international union, and Mr. Ken Peterson, who works with me.

If I may, I would like to open by briefly describing in an informal manner my own personal experiences in developing or helping to develop this legislation. When I came with the Hotel and Restaurant Employees in 1961 they told me that there were two principal problems in which they were interested, their lack of coverage under the minimum wage laws and their lack of coverage under the Social Security Act, and they asked me to devote my attention to these two problems.

I immediately sought and obtained meetings with all of the various Government agencies concerned with the administration of the social security system—the Treasury Department, the General Counsel's Office of the Treasury, the Tax Legislative Counsel's Office of the

Treasury, technical people at the Department of Health, Education, and Welfare, Social Security Administration, and the Internal Revenue Service. In my own approach to this problem in its beginning I assumed that the employees represented by the union were violently opposed to any bill which would include an income tax withholding provision.

Therefore, in my own approach to this and in my discussions with all of the Government agencies I tried to set forth the problem in this manner: That we have a system developed by the U.S. Government wherein people who derive their income principally from tips do pay incomes taxes.

A methodology has been worked out that requires these people to pay their income tax, either by voluntary disclosure at the end of the year or by arbitrary assessment by the Internal Revenue Service.

There is a system to cover this tip income for tax purposes, but there has not been a system worked out for social security purposes. I wondered why we couldn't take their tax liability of the end of the tax year and in an afterthought manner work out a tax on their income, however arrived at, at the end of the tax year, to cover them under social security.

All of the Government agencies reacted adversely to this, principally because the administration of the social security system has been automated. They have machinery and equipment in Baltimore. It all operates on a quarterly basis. To take any substantial group of people out of this mechanical operation creates great administrative problems for the agency, but despite this problem the agencies agreed to try this approach and we caused to be drafted a bill which used this approach, that at the end of the taxable year we took a man's income tax liability, however arrived at, whether arbitrarily assessed by the Internal Revenue Service or whether he voluntarily disclosed it, and at the end of the year we knew what his income was from this return We used that as a basis for social security coverage.

We thereupon called into Washington about 550 representatives of the Hotel, Restaurant, & Bartenders International Union from all over the United States, Honolulu, Alaska, all 50 States, and we went into considerable detail to explain this bill to these people and I was met frankly with violent objection on the part of these people. They wanted income tax withholding on a quarterly basis. They wanted reporting on a quarterly basis.

They instructed me from the floor in the Willard Hotel Ballroom to seek changes in the bill which would conform to the Treasury's concept of how this statute should operate.

Therefore, I went back to the Treasury and said, "I'm sorry. I didn't know how my people really felt about it. They agree with you this thing ought to be on a quarterly basis. They want to be like everybody else. They want a bill which would operate on the basis of voluntary disclosure on their part in order that on a quarterly basis they can get coverage and they say that they think that the average waiter, bartender, and hotel employees in the United States is very tired of being grabbed by his heels at the end of each tax year and shaken by some Internal Revenue fellow who says to him, 'You made x dollars' and this person more often than not has no records to prove his situation, so he pays. Therefore, they want quarterly coverage."

We changed our position. The Treasury was delighted because it made their problems very easy in terms of administration. At this point they met with the employers, many, many times and made many, many concessions to the employers in an effort to get these people to go along with this.

Every single change that the Treasury asked our union to make to accommodate the employers we agreed to. We have said to the Treasury, in effect, "You have our blank check to work out any kind of a system which does establish the principal of social security for our people because we need it that badly and anything that you can do with these employers to make it easier we are willing to do. Frankly, it would seem to me in all candor no matter what we do with them they are still going to oppose it because it costs them a few pennies a month per employee."

This is what their basic objection is. Some changes were made in this committee in the last session of the Congress and many of us hoped that this very significant change which was made in this committee might satisfy these employers, and it appeared for a little bit as if it would, but when the bill got over on to the other side of the Capitol they found all kinds of reasons to describe it as star chamber methodology and sneak attacks, in the night, and all other violent descriptions and the result was that the bill did not become law and we are back here again as part of H.R. 1.

Last week representatives of the industry appeared before your committee and made some rather strenuous objections to this bill. I would like to comment briefly on five of these objections.

Objection No. 1 seemed to be that neither in theory nor in practice can there be justified an arrangement between two separate parties who have nothing to do with an employer's payroll, but which imposes a Federal tax on an entirely separate party, that is, the employer. Inherent in this objection on the part of the employer is an assumption that the employer has nothing to do with a waiter who receives tips, that this waiter is in fact a self-employed person, and that the waiter has nothing to do with the payroll of the employer. They have tried this before. They have tried to come to Congress and say to the Congress that these people are in fact self-employed.

This is absolutely not so. Every State in the Union has health restrictions, for example, involving persons who handle food. These restrictions are administered by the employer. Almost without exception our collective bargaining agreements provide a basic wage for people in this type of employment which is supplemented by tipped employment, but more basically and more to the point is the very contradictory position that this industry finds itself in in its advocacy before this Congress.

They go over to Chairman Powell's Committee on Education and Labor and they say, "Don't cover us under the minimum wage laws because tips are part of the wage structure of our industry and therefore should be counted as part of the wage structure of our industry and therefore don't put us under the minimum wage law," but they come here to your committee and they say to you that these waters are in fact self-employed people and the tips have nothing to do with their wage structure, so they are talking with forked tongues in the same

House of Congress, to quote an Indian friend of mine that I knew a long time ago.

No. 2:

> Technical and administrative difficulties would arise from the proposal in section 205 relative to reporting of tips.

This union makes absolutely no claim that there wouldn't be substantial technical and reporting difficulties in connection with this particular legislation, but we also feel that there have been substantial technical and reporting difficulties in connection with every effort made by this committee and this Congress in the extension of social security coverage.

Certainly this would be a whole lot easier to administer than the section dealing with my wife's cleaning woman who comes in twice a week, and again we rest on this statement, that we have said to the Treasury that we will agree to any reasonable proposal that establishes social security for our people and we will agree to any reasonable proposal that eases this burden on the employer, but he has to come in and deal in good faith and indicate that he really is anxious and willing to provide social security and is not just concerned with the dollars and cents.

We agree that there will be technical problems in its administration and we want to work with the committees of Congress and with the Government to correct any problems that arise.

No. 3, they say:

> The innkeeping industry is such that "casual employees"—those employees who may work one or two nights a month for as many as 10 or more different employers per month—would be faced with filing multitudinous reports.

I have here a study made in February 1962 by the Department of Labor identified as "Restaurants and Other Food Service Enterprises Data Pertinent to an Evaluation of the Need for and the Feasibility of Applying Statutory Minimum Wage and Maximum Hour Standards."

This is an official Government document which indicates that the number of employees in all eating and drinking establishments in the United States is 1,575,667 people.

Back further in this study at page E-48 there is a table No. 47 which breaks these things down by region, which indicates that of this total of 1,500,000 and more, only 45,952 are casual employees. These are Department of Labor statistics and it seems to me completely refute the statements of the employers that this is basically a casual industry.

Mr. CURTIS. May I ask you about the statistics? Is that all of the employees, or is that just your group of tipped employees?

Mr. ANDERSON. This is described as all eating and drinking establishments in the United States.

Mr. CURTIS. They would include the dishwasher and so on?

Mr. ANDERSON. It would include everybody in the eating and drinking establishments, plural.

Mr. CURTIS. Thank you.

Mr. ANDERSON. No. 4:

> A tremendous burden would be placed on hotel-motel employees as well as employers. The employee is required to "report tips in one or more written monthly statements furnished to his employer." No other taxpayer, to our knowledge, has this tremendous burden.

Frankly, it is a burden on waiters and others engaged in tipped employment to require them to make this type of reporting to their employer, but because of the nature of this income that we are discussing and because of the requirement that the Government have some orderly manner in which to receive information about this income, we feel that this is a reasonable approach and that it permits these people to make this calculation.

The truth of the matter is they make the calculation now on an annual basis and this enables them to keep much more accurate records than the present requirement which requires them to make it on a 12-month basis.

It is just a question of whether you ask them to do it at the end of the year or every month, and I think in fairness to the waiter who doesn't really have these large backlogs of cash to pay this income tax liability at the end of the year we do a great service for these people in the service industry to permit them to pay their taxes on a quarterly basis to avoid this end of the year trauma, and I use the word advisedly because in this industry it is trauma.

No. 5:

> Declarations by young workers, or females contemplating marriage and removal from the labor force, may be nominal.

They say here that young people in this industry are going to understate their income and that older people are going to overstate their income, and all I can say in response to that is I doubt very much whether anybody who works for wages in the United States is going to deliberately overstate his income in any substantial amount and incur the attendant income tax liabilities for the relatively insignificant gain that he might get in social security base because of it.

I would like to close by saying that this union represents people who are not exactly impoverished and who don't all live in Appalachia, but who are poor and who need help, and who in many cases can't help themselves, and who are now trying to get by on extremely inadequate retirement incomes. Unfortunately, in many, many cases people in this industry continue to work when they ought to be resting, when they ought to be taking it easy, and we hope that this social security gap can be closed in this Congress and we appreciate the continuing interests of the Committee on Ways and Means in this problem.

We know that you have dealt with it many times before and we know that you are interested in this thing, and we hope very much that we can wrap it up in this session of the Congress.

Mr. Gettler is here, and Mr. Anselmo, and Mr. Peterson. We would be glad to respond to any inquiries the committee may have.

The CHAIRMAN. Mr. Anderson, I want to understand you clearly now. The employees themselves, the waiters, the bartenders, those whom you represent, are perfectly agreeable to the withholding for income tax as well as the withholding for social security purposes of tips that they may receive?

Mr. ANDERSON. I was instructed by the legislative conference on our union here in this city 3 years ago to change our bill, to change our request, and agree with the Treasury in order to include withholding; yes, sir.

The CHAIRMAN. Last year we did not have the provision of withholding for income tax because presumably we were not advised fully as to the feeling of those against whom the withholding would occur, so that the provision of the bill itself, HR. 1, which allows withholding, both the social security and income tax, is what the employee wants.

Mr. ANDERSON. Yes, sir.

The CHAIRMAN. Let me ask you this. I didn't quite understand this matter of the difference that the provision for withholding on amounts of tips received, for income tax purposes, would make. Is a waiter under provision of the Internal Revenue Code required to make an estimate of what his tips may be and to make that on a quarterly basis during the course of the taxable year or not?

Mr. ANDERSON. If to the best of his knowledge the waiter anticipates income in sufficient amount to qualify for that provision which requires an estimate in advance he must make it. He must make this estimate in advance; yes, sir.

The CHAIRMAN. But that is not sufficient to enable him to avoid the big lump sum that comes due when he files his return?

Mr. ANDERSON. I would say that the average waiter in this industry, Mr. Chairman, does not qualify for this anticipatory section of the statute we are discussing.

Mr. KEOGH. Mr. Anderson, as a practical matter may not the individual taxpayer file his quarterly estimates on the basis of his actual cash receipts up to that time, so that there is no obligation for him to estimate what they are going to be in advance, but he brings them current with each quarterly estimate?

Mr. ANDERSON. Yes, he can do that as a practical matter; yes, sir.

Mr. KEOGH. There is no need for estimating what is going to come to him in the last 9 months, or the last 6 months, or the last 3 months of the taxable year?

Mr. ANDERSON. You mean under the statute?

Mr. KEOGH. I mean under existing practice.

Mr. ANDERSON. That is correct. He can report on a quarterly basis.

The CHAIRMAN. Regardless of whether this is a benefit to him or not, and that is what I was trying to ascertain, whether it really is a benefit to him, the employee, the waiter, the bartender, is perfectly willing if we will allow tipped income to be considered for social security purposes, to have withholding applied to it for income tax purposes. This is contrary to what my thought was last year when we eliminated the income tax withholding provision. We really weren't doing something just to meet the approval of the waiter or bartender at that time, so I would say, Mr. Anderson, that your group has been extremely cooperative with the agencies of Government and with the Congress in accepting any suggestion or modification in order to have tipped income included for social security purposes.

I commend you because I think you and those perhaps at the table are due great credit for bringing to the members of the union these various points in a way that they can fully understand and give this degree of cooperation that I have just indicated.

I have very little sympathy for the argument that is made on the one hand that social security should not include tipped income, but on the other that tips should be included for minimum wage purposes, and I have talked to some of my own people at home about the inconsistency of that position.

Mr. KEOGH. Mr. Anderson, you indicated in your principal statement a willingness on the part of those for whom you speak to accommodate, as far as you can, the concern of the employers with respect to the problems, whatever they are, that may arise as a result of this coverage. That willingness, however, does not extend, does it, to your being agreeable to the concept that tips are self-employment income?

Mr. ANDERSON. No, sir. We would prefer no legislation at all to a bill which describes tipped income as self-employment in the service industry.

Mr. KEOGH. But if in order to lessen, if not completely remove, employer objection to the pending proposal it was deemed advisable by this committee to eliminate the provision for withholding on tips for income tax purposes you would not be opposed to that deletion, would you?

Mr. ANDERSON. Mr. Keogh, in fairness to our discussions with the Treasury Department I would have to respond by saying that we hope very much that the withholding tax is included in this bill.

However, if in the wisdom of this committee the withholding tax is deleted, we certainly are not going to quarrel with the judgment of this committee and with this Congress in establishing the principle of social security coverage for our people, which is our principal objective, but I must say in closing that we do think that you will be doing the waiter and bartender a favor to include him under withholding to avoid this annual trauma.

Mr. KEOGH. I don't want to get into any extended argument about that, but I think that the annual trauma is avoided if the individual is properly advised with respect to the filing of his quarterly estimates.

Mr. ANDERSON. That is correct; yes, sir.

The CHAIRMAN. Your point is that they are not properly advised?

Mr. ANDERSON. No, sir; they are not.

The CHAIRMAN. And the fact remains that they don't do it and at the end of the year they are hit with a rather sizable tax payment.

Mr. KEOGH. I daresay, Mr. Chairman, that there is an increasing number of them who are taking advantage of the opportunity of filing complete quarterly estimates, paying the tax thereon, and avoiding the yearend clobbering.

The CHAIRMAN. I know your enlightened constituents in New York City are probably doing that.

Mr. KEOGH. I don't know whether they are as enlightened as they are forced to do it by reason of the supervision that is going on there with respect to the payment of income taxes on tips. This has been going on in our area for over 5 years and the waiter, or the bartender, or the bootblack reaches a point where he realizes that he has to do something to avoid that yearend trauma.

Mr. SCHNEEBELI. Will the gentleman yield?

Mr. KEOGH. Yes.

Mr. SCHNEEBELI. In connection with these quarterly estimates where the waiter is on both a salary and gets tips does the employer contribute any part of that quarterly payment?

Mr. KEOGH. As I understand it, the employer withholds for income tax purposes on the cash wages that he pays the waiters. Isn't that correct?

Mr. GETTLER. That is correct.

Mr. KEOGH. So all that the individual is faced with the necessity of doing is what any other individual does who has income from wages and who has interest in a savings bank or has dividends.

Mr. SCHNEEBELI. Then if the wages he receives are enough to pay for this estimate they are deducted by the employer, and if the wages are not enough the employee pays part of it himself. There are some instances where the wages are so low and the tips so high that I imagine the employee has to contribute too in addition to the employer deduction.

Mr. KEOGH. It is the employee who pays the tax. He just takes credit, doesn't he, in his estimate for the amount withheld?

Mr. GETTLER. That is correct.

Mr. KEOGH. And supplements in his quarterly estimate with a cash payment for anything else due.

Mr. SCHNEEBELI. Yes. That is my question.

Mr. KEOGH. So if they reach the point where they are fully informed with respect to their probable tax liability for the full year they will spread it over with these quarterly installments. I think that, if the employers made the point that the administrative burden of wihtholding on tips for income tax purposes greatly overburdens them, we should give that some consideration, provided we do not recede from the basic objective of this provision which is to permit the inclusion of tips for social security purposes.

Mr. SCHNEEBELI. I am not arguing one way or the other. I am just looking for information.

Mr. ANDERSON. About the only places where the wages are so low and the tips are real high are bunny clubs and playboy clubs, and I am not sure whether primarily they are really in the business of food and drink.

The CHAIRMAN. You are on the record, Mr. Anderson.

Any further questions?

Mr. BYRNES. Yes.

The CHAIRMAN. Mr. Byrnes.

Mr. BYRNES. You mentioned before this study of the Department of Labor. What was the figure you mentioned as the total number of hotel and restaurant employees?

Mr. ANDERSON. This appears on page 2, total number of employees in eating and drinking places, distribution of establishments with payroll, sales volume, et cetera, 1,575,667.

Mr. BYRNES. That is eating and drinking. That figure relates to employees associated with providing food and beverages. It wouldn't include the hotel bellhops, would it?

Mr. ANDERSON. No, it would not; eating and drinking establishments. This would be the waiters.

Mr. BYRNES. Yes.

Mr. ANDERSON. Would not include bellhops in my opinion.

Mr. Byrnes. What is the membership of your union in the group that would be included in this survey? How many of the 1.5 million are members of your union?

Mr. Anderson. About 400,000 in our opinion, Mr. Byrnes.

Mr. Byrnes. Of this particular group, isn't your union membership broader than the coverage of the survey, including employees whose employment was not covered by the survey?

Mr. Anderson. Yes.

My Byrnes. Do you also have the bellhops?

Mr. Anderson. Yes, sir.

Mr. Byrnes. You also have the maids in the hotel.

Mr. Anderson. Hotel employees, everybody in the hotel establishment.

Mr. Byrnes. Everybody, and the survey covers only those attached to the eating and drinking phase.

Mr. Anderson. Yes, sir.

Mr. Byrnes. So your total membership is more than 400,000.

Mr. Anderson. Yes, sir.

Mr. Byrnes. One thing that concerns me is that a large number of waitresses aren't going to seek social security benefits on the basis of their own wage record. They work as waitresses for a while after they get out of high school and then they get married, or they just do it part time.

During their lifetime the husband has developed a better wage record. The wife's benefit is at least equivalent to or more than she would get in her own right, simply because of the period of time that she has worked. These people as individuals under the change that is proposed would be paying a tax for something they are never going to get.

They are paying it now. I understand that. They are paying it to the degree that there is withholding out of the wages they receive for social security benefits, but this would add on another layer of course that they wouldnt' be getting too.

Mr. Anderson. Yes, sir. This is a very real problem and I think as a matter of social insurance you have touched a very vital nerve in the social security system itself, wherein a very large group of people have been covered arbitrarily by statutory provision and, for example, in my own case I have been paying taxes into the social security system since its inception. It is possible for my wife to die before me and it is possible for me to live to be 64 years of age and die.

The question can properly be raised, What happens to my money? Where is my money? In other social insurance systems administered by the Federal Government provision is made for the return of money plus an allowance in lieu of interest. We do not, however, suggest that in this case. We simply say that this system which we support here, and which has been drafted by the Treasury with the cooperation of HEW, and with the social security people, and Internal Revenue, is imperfect at best, but we believe that it is the best approach, and the only suggestion I can offer is that we hope that the waitress that you are talking about will make an effort in the future to take better care of her records and report this employment so that if her time does come it will increase her income.

Mr. BYRNES. Let me ask this. I think everyone will probably agree that people who want to should be able to report tip income like any other outside income they have in the nature of self-employment income for social security purposes. I can understand that the reason that people receiving tips aren't enthusiastic about treating tips as self-employment income is that they would pay at a higher rate.

Mr. ANDERSON. They pay double rate.

Mr. BYRNES. No, they pay one-half times the individual rate, so they are paying more than they pay as an employee on their wages. They pay the individual rate plus half again as much.

Let me ask a hypothetical question. If the self-employment rate was the same rate as the employee rate, would you be that concerned? I assume it wouldn't make any difference to you then. If you paid it as self-employment income at the same time you are reporting your income tax on the tips you received.

Mr. ANDERSON. The only thing this industry seeks is to be treated like any other industry. They would like to be covered under the Social Security Act under the same terms and conditions as any other employee, and to say to people in this industry that you have to pay all of the cost of your coverage, and that is what the suggestion is here, that your employer pays none, it seems to me to be unfair.

Mr. GETTLER. If I may add to that, I know of no provision in the present law which would permit the reporting of tipped income as self-employment income.

Mr. BYRNES. That is my understanding, too. We brought that out the other day and it seems to be an odd situation because a person could be a waiter and also have some other self-employment income. He could operate a small truck gardening farm, or something like that.

He would have to report that income and if his basic wage didn't exceed $4,800 he would have to pay the self-employment income tax on that income for social security purposes, but tips put into a category that apparently is a no man's land.

Mr. GETTLER. That is correct.

Mr. BYRNES. Isn't that really the problem we have here? Of course, I think we all recognize that it isn't purely and simply a wage, because, after all, the employer doesn't determine the amount that a person gets necessarily.

When the employer determines the wage he will pay, he recognizes that the employee will receive tip income, so that tip income falls into an odd category that is difficult to define as specifically other income.

Mr. ANDERSON. Exactly, but when Price Waterhouse goes into the San Geronimo-Hilton in San Juan, P.R., to determine whether or not a mortgage application is valid and they do a cost study on the operation of the dining room in this hotel they know that it costs *x* dollars to serve the food in that hotel and they know that a portion of it will be paid by the hotel and that the other portion of it will be paid by the patrons of that dining room, and they do not include the total income or the total cost of serving that food in the cost of operating that dining room, and everybody that has anything to do with cost studies of food and drinking establishments know that they are all operated on the basis of a minimum wage guarantee by the employer and in many cases no guarantee at all on the assumption that the persons being served will in fact assume a part of the overhead operating cost of that employer.

Mr. Byrnes. I don't think there is any question that wages are set for tipped employees on the basis that they are going to get tips.

Mr. Anderson. Of course.

Mr. Byrnes. I think we have to accept that fact, that tips are taken into consideration.

Mr. Gettler. If I may make one comment, tips are not completely in the no man's land, because there are certain tips that are taken into account for social security purposes, and I am referring now to, for example, the banquet waiters and the banquet waitresses. Incidentally, these banquet waiters and waitresses who constitute a pool of people who do, let's say, three or four banquets a week at all different establishments and primarily are the kinds of people I think that the employer witness was talking about last week, these are the casual employees in the industry who work at different establishments all during the month, but these people do as a matter of fact in almost every instance have their tips taken into account for social security purposes and the employer is required to make reports, so that he is now making the reports on these casual employees, because, for example, if you have a dinner, let's say for 100 people at a particular hotel and that hotel is charging you $10 a person so that you get a bill for $1,000 and you mark on these add 15 percent tip so that your bill is really $1,150, that $150 when it is divided by the employer among the individuals who have worked that banquet has to be reported by the employer and social security paid by the employer and the employee, so that he is already making the kind of reports for this purpose for casual employees that they were complaining about, and also withholding tax. This is already being done.

Mr. Keogh. Will you yield?

Mr. Byrnes. I yield to you.

Mr. Keogh. But that only applies where the committee running the banquet or the individual running the banquet pays the amount of the tip to the hotel operator and does not apply where the price of the ticket to the banquet does not include the gratuity. Isn't that correct?

Mr. Gettler. That is correct, but my point is that the casual employee is already taken care of.

Mr. Keogh. So you must distinguish between the type of banquet about which you are talking when you say that tips are included for social security puproses——

Mr. Gettler. That is correct.

Mr. Keogh. Where the waiter passes a plate it doesn't come under that.

Mr. Gettler. No.

Mr. Byrnes. That was perfectly clear.

Mr. Kevgh. I am not sure of that. I am now.

Mr. Byrnes. This doesn't apply, though, where, let's say, a person staying at a hotel signs his tickets for his lunches, and his dinners. He writes, "Tips so much." He isn't required to do that. It is only in the banquet operation that a tip is part of the charge made.

Mr. Gettler. That is correct.

Mr. Byrnes. And the regulations require that the employers include that as wages.

Mr. Gettler. For all purposes.

Mr. Anderson. If I may inject at this point, Congressman, an increasing amount of the dollar volume in this problem that we are now talking about falls into this category of what I call tips of record, expense account computations, and more particularly credit cards which now go through the books of the employer with tips on it, but are not covered for social security purposes and for withholding tax, but these transactions are now going through the books of this employer and an increasing percentage of the total volume of eating and dining in the country and of drinking is involved in the credit card operation which is now going through this man's books, and in the case of some of the larger employers I suppose they have IBM machinery which is involved.

Mr. Byrnes. Let me ask you this as a matter of information: When a person uses a credit card and he writes in the tip on the bill he signs, are those tips pooled among the waitresses? Do they still maintain an identity with the individual waitress?

Mr. Anderson. No. That belongs to the waiter whose name is on there.

Mr. Keogh. I will give you this information. If a patron signs his dinner check and adds the gratuity for the waiter on it and presents a credit card the waiter takes that into the cashier who gives him the cash for the amount on the tip. Doesn't he? Doesn't he receive that cash?

Mr. Anderson. Yes, sir.

Mr. Keogh. So the total amount of the check goes to whichever credit card company it is presented and in the books of that credit card company there is no distinction between the price of the meal and the gratuity.

Mr. Curtis. What about bad debts?

Mr. Keogh. That is one of the features of the credit card operation. The restaurant operator is protected against bad debts by the company.

Mr. Curtis. Yes, but I was wondering if there was a bad debt and the restaurant owner permitted this cash system the tipped employee is in free. He has his tip.

Mr. Keogh. The credit card company comes and pays the restaurant operator the total amount of the bill, including the gratuity.

Mr. Anderson. Whether the amount is paid that evening immediately in cash to the individual, whether the amount is paid on a weekly basis by check, which happens in some instances, or whether the amount is pooled by all employees, which does happen in some cases, it is a fact that in credit card transactions the amount of gratuities paid to employees in eating and drinking establishments is now going through the books and records of the employer so that this eases in some degree his cry that this is imposing on him an additional burden of bookkeeping.

It is true that there are other systems besides the one described by Mr. Keogh, but in general what he describes is the procedure.

Mr. Byrnes. Of course I think we have to recognize that this is going to impose a very difficult burden on small operators particularly. Once the employer figures out on the basis of the wage that he is paying an individual what the withholding rate is for that individual on his income tax, it stays the same month after month unless he changes the wage that he pays the person. But if you add on tips each month the employee's total income is going to be a different figure, so that the employer has to make a special computation for each employee every month.

Therefore, we know that there are some administrative problems that are going to be more difficult, particularly for smaller operators, small restaurants, and small hotels that don't have the latest business machines.

Mr. Anderson. Again we repeat, there are many administrative difficulties built into this proposal now before this committee. We restate our earnest desire to work with this committee and with all agencies of Government in the future if necessary to correct anything that comes up.

We have no pride of authorship in any particular approach to this problem. We simply say that this is a horrible gap in the social insurance coverage and at a time when Congress is seriously extending the social insurance system in other areas, in other fields, and other philosophical challenges, we hope that this last remaining large gap in the basic social security system can be treated.

Mr. Byrnes. That is all.

Mr. Keogh (presiding). Any further questions? Mr. Watts.

Mr. Watts. As I understand the situation, Mr. Anderson, you are first interested in seeing that tips become a part of the social security payments. That is your main objective?

Mr. Anderson. Mr. Anselmo, would you like to answer that question?

Mr. Watts. In other words, you now have a situation where a person may work and make more money by tips than he does by his actual wages. For that reason he has been denied the right to have a sizable social security retirement and your effort is to have it fixed now in the law, irrespective of what the language might be, so that tips become a part of wages for the purposes of social security. That is your main objective.

Mr. Anselmo. That is correct. The tipped gratuity given for social security purposes should be treated as wages.

Mr. Watts. That is your first objective. If I understood Mr. Anderson correctly you would have no objection or you might favor a little bit of withholding on income if it can be worked out for income tax purposes, but your real objective is to get the coverage of tips under social security as though they were wages and not self-employed.

Mr. Anselmo. Mr. Congressman, I have spent the best part of my mature life in the hotel and restaurant industry. For the last 22 years I have represented hotel and restaurant workers in collective bargaining, in the adjudicating disputes, grievances, either through proper machinery, through arbitration, or whatever the formula may be, of waiters and waitresses, and the area where I was fortunate enough to handle these problems was in the San Francisco Bay area.

I represented 25,000 people, of which 10,000 were waiters and waitresses. On this question of prearranged banquets—and this must be a prearranged affair—this is a terminology that is used—the employer now must treat prearranged banquets where gratuities are put on the prearranged party the same as he treats his other real wages that he pays the employees.

As far as treatment of gratuities as separate income, this is almost a physical impossibility, since these gratuities are part of his real wages, since his wages are predicated on gratuities. We can't treat this in the same manner as we treat the other individual income such as interest or the court reporter selling transcripts. This is his work. This is his life work and his wages are predicated on tips, so therefore they must be counted for social security purposes as an employee, not as a separate contractor.

In the State of California as well as in other States gratuities under the Labor Code are the responsibility of management. Any gratuities that come within his area that he handles he is solely responsible to see that these gratuities are divided in accordance with the engager of a party's wishes. He can at no time make any distribution of these tips to other employees—this is in the code—so as to prevent gratuities that are left by parties to go to employees who were not working the party.

When we talk about casual people for one particular area that I am familiar with, we have 4,000 waiters in 1 union alone. They dispatch 3,500 jobs a month in this 1 union. The number of persons that are in this reserve pool out of the 4,000 are only 300 and these people are dispatched regularly to banquets and special occasions where prearranged parties are in effect and where the employer already takes out the necessary taxes according to the regulations.

Then we have the casual people out of the 3,500 jobs that are dispatched in that 1 particular union alone. There are only 45 or 50 jobs that are casual, and these are extra jobs at some individual restaurant where somebody doesn't show up or where there is an unusual amount of business and they need an extra employee, but these are so small that when we talk about casual employees, they can't even be counted when we are talking about waiters and waitresses.

When we talk about why it should be the management's responsibility to also treat these people in the same manner as other industries, this is the only industry, and I am sure that all of the committee members are familiar with the eating and drinking establishments throughout the metropolitan areas throughout the entire country, where we find the waiter who is 70 and 75, and in San Francisco we have one waiter who is 95 who is working in the St. Francis Hotel.

None of these people can afford to retire because their social security benefits are so low. We have provided one formula through a retirement program in the industry which supplements their social security benefit in a small portion, which brings me up to the question where do women fit into this problem?

Are women casual workers? Do they come into the industry and use it as a steppingstone during the period that they supplement the income of the rest of the family?

This is not wholly true. We have a waitresses union in San Francisco as well as other parts of the country. The average age of the waitresses as a result of an actuarial survey made for the purpose of medical and surgical hospital benefits is 41 and 42, and when we come down to giving pensions to the women of our industry who are in the servitude class that receive gratuities as part of their income, we find that many of them, not as many as waiters or not as many as cooks, but as many as bartenders, as many as dishwashers, as many as the service employees, receive pensions and work in the industry until they are 62 and 65 and they do not drop out.

Where we do have dropouts in casual employment is in some of the summer resort areas, but if we look around at the type of people that are used in this industry in establishments where gratuities are more prevalent than they are in ordinary establishments, we will find the average age between men and women somewhere around the age of 47.

I could tell you anything that you would like to know concerning the mechanics, the working arangements, the responsibility of these employees, how they are under direct control. I do not see how anybody could even make a statement, whether orally or in writing, that these are casual, self-employed people when they are regulated with controlled wages, hours, and working conditions. They are usually part of the basic agreement that provides the same pension, the same health and welfare, the same discharge clause, the same rules for relief periods as for all the other employees.

Even the stations are controlled by the employer. These individuals don't work a certain station on their own. There is a maitre d' or a captain under the employers' direction that points out what particular stations an individual employee must work.

We are talking about waiters and waitresses. Now, all of these people whether it be, by oral or by written agreement, are directly under the control of the employer in all of the hotel and restaurant industries. I have participated in collective bargaining for 22 years. I have sat over the bargaining table with many astute labor representatives. I have sat across the bargaining table with outstanding individuals who are in top supervisory positions or general managers of hotels or restaurant industries.

I have never at any time found where, regardless of what our opinion may be and regardless of the union's position not to treat tips as wages, we have tried to improve the wage structure for this group of people.

We have the same old record in the 22 years that I was directly responsible for the welfare of these people. Employers have taken the position that they are not going to treat waiters, waitresses, bellboys, and doormen the same as they are other people, since all of these people receive gratuities, and no matter how much you talk and no matter how much you look at it, if you look at the wage rates we have had to acquiesce throughout the country. In all of the collective bargaining agreements you will find those persons who we can call in the tipping categories getting anywhere from 50 to 300 percent less in their salary than other employees in the hotel or the restaurant industry.

I have heard it said that there are formulas where gratuities are divided. Well, there was a time when waiters and waitresses worked in pairs. They still do. They work in pairs for the purpose of giving proper service in the dining room. One of the waiters or the waitress on the team will be in the kitchen getting the necessary food while the other person is out in front servicing all of the patrons of both stations.

However, since the credit card and since the method by which gratuities are put on the checks in the last 15 or 20 years each one of these checks is directly made the responsibility of one of the team and no one member of that team takes on the responsibility of receiving all the gratuities and then dividing them between the other member of his team. Each one of his team's gratuities is handled individually from his own checks.

There are many fallacies in many statements that are made by the employers in this particular industry. This is something that our international union has been active in since 1957 on. It has been said that the international union was opposing any form of social security or any form of reporting these tips. It was true in the very early days when people were unfamiliar with what the formula was.

They were frightened and they didn't know what it was all about, but since then and as late as 1959 a national committee was formed by our international union and more than 35 persons representing only waiters, waitresses, bellmen, and doormen are on the committee.

It was their general consensus at a general meeting, and adopted by our international union, that the provision of 205 that Mr. King put in his H.R. 1 and he should be commended for the manner in which it was drafted, we are totally and wholly in favor of, and I think it is about time that we quit beating the bushes.

I think that our people in the hotel and restaurant industry should be treated as anyone else in all other industries.

Mr. BURKE. Mr. Chairman.

The CHAIRMAN. Are you through, Mr. Watts?

Mr. WATTS. Yes, sir.

The CHAIRMAN. Mr. Burke.

Mr. BURKE. Are there any hotels or restaurants in this country where the employers keep the tips and pay the waiters and waitresses a salary?

Mr. ANSELMO. Not to my knowledge legally. There have been times where gratuities have disappeared and there has been some problem of trying to find where they ended up, but there are no official records that I know of where an employer retains the tips and then pays out to the employees.

Mr. BURKE. I know, for instance, with respect to hatchecking in hotels, the tips go to the house.

I know in Massachusetts one time they compelled the hotels and restaurants to post a sign that "The gratuities paid here do not go to the employee." I was wondering in the cases of waiters or waitresses if there are any restaurants that do that.

Mr. ANSELMO. This is not in effect as far as waiters, waitresses, or bellboys. The question you speak of in the checkrooms, I can't very well say that I don't know about it because it is something that has happened historically and some of the States through their labor codes have required the sign to be put up that these gratuities are not retained by the hatcheck girl, that they are turned over to management or to the concessionaire.

In 95 percent of the cases I would say it is a concessionaire in the establishment and not directly to the owner of the hotel or the restaurant.

Mr. BURKE. Do you know of any cases where waiters or waitresses—I don't like to use the word "kickback"—pay a maitre d' or somebody else?

Mr. Anselmo. We would like to believe, Congressman, that this practice has been eliminated for a good many years. In various States—I can't name all of them—and my home State, which happens to be California—now I am an adopted native of Ohio since my office is in Ohio—we have a law in the labor code that prevents kickbacks and it is illegal, and I feel certain that most all of it has been eliminated. There may be some geographical area that I am not familiar with, but this is not a practice anymore. This is an illegal practice in many States by law.

Mr. Burke. That is all.

Mr. Herlong. Mr. Chairman, one question.

The Chairman. Mr. Herlong.

Mr. Herlong. Mr. Chairman, in this connection we are contemplating taking care of gratuities of hotel and restaurant employees as a part of their earning for social security benefits, I understand. Is there any consideration being given to extending this to other services where gratuities are a substantial portion of the income?

I am thinking of taxi drivers. Are they in here too?

The Chairman. This would apply to any and all situations.

Mr. Herlong. Are we going to have representatives of that group in here to give their views as well as hotel and restaurant representatives?

The Chairman. They have not asked to come.

Mr. Herlong. I ride in taxis occasionally when I can afford it and I ask them questions and get varying answers from these people.

Mr. Byrnes. Would you yield, Sid?

Mr. Herlong. Yes.

Mr. Byrnes. I think it includes caddies, too.

Mr. Herlong. Oh, yes; it would include caddies definitely.

Mr. Watts. It includes anybody that gets any gratuities at all, doesn't it, as a part of his income?

The Chairman. Mr. Curtis.

Mr. Curtis. I think this is some excellent testimony and throws a great deal of light on the problem. I happen to agree with the main thrust that you presented; but I think we must recognize that the problem exists because this is in the nature of a hybrid relationship. There are some aspects of this that lend themselves to the term "self-employed" but I think I tend to agree that essentially they are employees.

However, there are aspects of this relationship which leads me to ask this question. It seems to me that the development of the concessions, whether it is a hatcheck girl, or a cigarette girl, or whatever, the development of that technique is a safety valve for those that really should be categorized in the nature of self-employed.

Granted, the individuals become employees of an independent contractor, as it were, but this is breaking out from the business of the nightclub or restaurant, those who are more in the nature of self-employed, not under the control of the person running the establishment itself.

Would you comment on that? Has there been an increase in the amount of contracting out of a concession basis of certain of the kinds of services in any of the restaurants or hotels? Are there such things, for example, as bellboy concessions? Has that ever been developed that you know of?

Mr. Anselmo. That is almost extinct. The bellhops are under the direct supervision of the hotel management. There have been times, and there still is in some geographical areas, where many of the large hotels rent out space for a coffeeshop or some other service type of an operation, but in general the main dining room, the room service, and all the banquet facilities are all handled directly, solely controlled by the hotel itself.

Mr. Curtis. I have heard other examples that some headwaiters jobs are so lucrative from the tips that in fact the restaurant or the establishment will actually get money from the person who contracts, in effect, to be the headwaiter.

I know there are some instances of that. I imagine they are most unusual.

Mr. Anselmo. There is a sprinkle of that. As I say, we hope that it is now extinct. We do not subscribe to an employee of a restaurant or a hotel kicking back to anybody to work. We don't subscribe to that.

Mr. Curtis. I don't regard it as a kickback. I regard this as perfectly proper if the people want to engage in that kind of method.

Mr. Anderson. It is confined, Mr. Curtis, mainly to the very exclusive, very expensive type of nightclub establishments, which do not make up a large percentage of our eating and drinking establishments, but it is a problem in some of these places, as you say.

Mr. Curtis. The only reason it becomes important is looking to see what the trend might be.

Mr. Anderson. As a matter of fact, the trend is in the other direction.

Mr. Curtis. It is in the other direction.

Mr. Anderson. Mainly because of the activity of the Internal Revenue Service in the Waldorf Hotel, among other places.

Mr. Curtis. I see nothing wrong, incidentally, with this kind of arrangement being made and certainly where it is made the status of whether the persons involved here are employees or self-employed is clarified.

Incidentally, whether you call them casual employees or in and out, you used the term "banquet waiters and waitresses." The Kelly Girls are an example of this kind of arrangement in the employment field where employers with peak loads instead of getting the additional employees directly will engage an independent contractor like the Kelly Girl kind of thing.

With reference to this banquet and waiter or waitress, is this ever developed where people treat this as a concession kind of thing so the hotel would contract it out?

Mr. Anderson. For example, in Washington, D.C., there is one very large caterer.

There are large caterers in the Washington area, for example, that handle unusually large dining affairs, dinners, and things like that. They necessarily maintain a large list of available waiters and waitresses for evening affairs personalize it a little bit. I dare say that a number of your own waiters in the House dining room double in brass in the evening as banquet waiters.

For example, there is a fellow named King that takes care of the press table over on the Senate side. I never go to a banquet in Washington without running into King. King is quite a businessman and he is an entrepreneur and he is making money for himself, but these people are on call. They belong to the union in most cases and they are available as a pool, as described by Mr. Anselmo, in the San Francisco area, and in many cases they are dispatched by the union itself.

Mr. CURTIS. I see. In the St. Louis community, and I daresay this is true elsewhere, catering organizations have developed. These are usually for private parties in the home, but I notice that they will also put these affairs on and handle them in a hotel or other places under those kinds of arrangements. I was just trying to get a picture and you have given us a pretty good bird's-eye view of it.

I want to get now to a couple of details that bother me. This maybe I can get from Mr. Ball to a large degree. The restaurant people have raised the point that older employees will tend to overstate their tips and the younger ones will understate. Just how much advantage can be gained from, say, a person over 50 overstating his wages and gaining benefits from the last few years? This has been raised, incidentally, in talking about the policemen and firemen, the first time I ever heard the argument.

I pointed out that they retired at an early age, on an average around 50, and then they were going to get their cake and eat it too and they said, "No, under the laws they can't gain so much from entering the labor force under social security for the first time at age 50."

Would you comment on that point, Mr. Ball?

Mr. BALL. Yes, Mr. Curtis. The effect of the higher wages that anyone might overreport on for a given period of time is much greater in the early years of the program than it is as the program matures.

Mr. CURTIS. In other words, if we keep moving it forward this will be less and less.

Mr. BALL. Yes. It is true that when we had those six-quarter cases, with the dropout, if a person could report very high for just a year and a half and had his benefit figured over that time it was very important.

If you take a whole working lifetime under the program of 40 years, say, then overreporting for any small number of years would be very much diluted in figuring the average. Perhaps if you wanted to get into this in detail we might submit a few examples for the record.

Mr. CURTIS. I was going to ask you if you would and then ask the union people who are here this question.

Most of your people are covered by social security, aren't they? It is just a question of what benefits they get, so most of them would be in the system, wouldn't they?

Mr. GETTLER. Yes; they are covered for the most part because they are covered on the cash wages paid to them.

Mr. CURTIS. And they already get the minimum, so dealing with that specific situation, Mr. Ball, you would say that with them being covered already, this opportunity of overreporting, if it exists, would tend to be diminished because of that. Am I correct?

Mr. BALL. Yes, that would be correct, too, Mr. Curtis, and the committee considered this question in detail at the time that the program was extended to the self-employed. That is where it comes up in the baldest form because the self-employed have the question of what they report probably more under their control than any other group.

It is just direct reporting by them without a check through anybody, and at that time the committee felt that one of the best protections against inaccurate reporting is the same point that Mr. Anderson made in his testimony, and that is making such a report to the Government of an amount earned makes the individual liable on that amount for the much higher rate of income tax, and it was felt that that had a counterbalancing effect which over the long run would control any tendency to over report for social security.

Mr. CURTIS. Yes. I can appreciate that, but I mainly wanted to see how much there was to this argument. Perhaps you would do this and provide these examples by working with the union officials so that those examples as nearly as possible conform to what the real picture is.

In other words, let the examples, to the extent that they can, be typical of the type of people we have in this area. I have felt that this matter has been overstated, but the best way to find out is to see what the actual picture is and then we can better evaluate it.

Mr. BALL. We would be very glad to do that.

(The information referred to follows:)

OVERREPORTING OF TIPS TO BUILD UP SOCIAL SECURITY BENEFITS

Under the provisions of H.R. 1 for covering tips as wages, it would be possible for an employee whose tips and wages together were less than the maximum amount of annual earnings that could be credited (under the bill, $5,600 starting with 1966) to report more tips than he actually received in the interest of building up his social security account and eventually getting higher social security benefits. It is unlikely, though, that such overreporting would be widespread.

Overreporting would involve the payment of additional social security taxes and, in many cases, higher income tax as well, since all tips that an employee reported would be shown as wages on the employer's income tax withholding statement. (The fact that income tax liability is directly related to the amount of earnings claimed for social security is relied on now to discourage overreporting by self-employed people.) Even a worker who was nearing retirement when tips were covered (and who consequently would pay the additional tax for only a few years) would find the overreporting expensive in relation to the effect it would have on his benefit amount. This would be true in spite of the fact that a worker attaining age 65 within a few years after tips were covered would have his benefit based on his average earnings over a relatively few years and therefore the higher earnings he reported would have a greater effect on his benefit amount than such earnings could have on the benefits of a person attaining age 65 at a later time. (A man reaching age 65 in 1967, the year after tips would be covered, for example, would have his benefit based on the average of his 11 best years of earnings.) In the long run, of course, earnings will be averaged over quite long periods (eventually 38 years for men and 35 years for women), and the effect of overreporting on benefit amounts would be very small unless it were done over a very long period.

For a worker whose earnings (wages and tips combined) were very low, some overreporting might be profitable in spite of the fact that it would involve the payment of additional taxes (though for a very low-income person the probability of voluntary forgoing current income to build up income in old age is quite small). The formula that underlies the benefit table in the law results in paying a higher percentage of earnings in benefits at lower average monthly earnings levels than at higher average monthly earnings levels. Under present law benefits are roughly 58.85 percent of the first $110 of average monthly earnings and 21.4 percent of all average monthly earnings above $110. The benefit table in

H.R. 1 is based on a formula that approximates 63 percent of the first $110 of average monthly earnings, 23 percent of the next $290, and 22 percent of the next $66. (The reason why the law provides, for a person with low average earnings, a larger proportion of his earnings in benefits than it does for the person with higher average earnings is that a lower paid worker and his family have less margin for reduction of their income than does a higher paid worker.) It might be profitable for a worker to overreport in order to bring his average monthly earnings up to $110. The fact is, though, that almost everyone who gets tips actually earns more than $110 a month in wages and tips combined. Overreporting, then, nearly always would make a difference only in that part of the benefit that is derived from the smaller percentage part of the formula.

The enclosed tables illustrate the effect that overreporting of tips could have on benefit amounts, and the amounts of additional social security and Federal income taxes that would be paid as a consequence of the overreporting.

EXAMPLES ILLUSTRATING THE EFFECT ON SOCIAL SECURITY BENEFIT AMOUNTS, AND THE ADDITIONAL FEDERAL TAXES THAT WOULD BE PAYABLE, IF A WORKER OVERREPORTED INCOME FROM TIPS IN THE LATER YEARS OF HIS WORKING LIFETIME

SINGLE WORKER WITH NO DEPENDENTS

In the following examples, it is assumed that the worker started working in 1937 or at age 22, whichever is later, and that he continues working regularly (50 weeks a year) up to the year of attainment of age 65; it is further assumed that H.R. 1 (including coverage of tips) will be enacted in 1965. Federal income taxes are based on tax schedules effective in 1965. The worker who is age 22 in 1966 is assumed to begin overreporting, up to the maximum ($5,600), in 1994 (at age 50), and the workers who are age 45 and age 60 in 1966 are assumed to begin overreporting, up to the maximum ($5,000), in 1966.

Worker's age in 1966	Benefits at age 65				Total Federal income and social security taxes after 1965			
	Based on actual earnings	Based on overreporting	Increase resulting from overreporting		Based on actual earnings	Based on overreporting	Increase resulting from overreporting	
			Monthly	Yearly			Total	Yearly average [1]
Earns $30 a week in regular wages and $40 a week in tips:								
60	$85.60	$98.50	$12.90	$154.80	$2,917.50	$5,250.00	$2,332.50	$466.50
45	98.50	125.20	26.70	320.40	11,932.50	21,420.00	9,487.50	474.38
22	110.30	126.30	16.00	192.00	25,755.50	32,910.50	7,155.00	477.00
Earns $35 a week in regular wages and $65 a week in tips:								
60	98.50	101.70	3.20	38.40	4,530.00	5,250.00	720.00	144.00
45	118.80	126.30	7.50	90.00	18,495.00	21,420.00	2,925.00	146.25
22	138.90	142.90	4.00	48.00	39,908.00	42,113.00	2,205.00	147.00
Earns $20 a week in regular wages and $30 a week in tips:								
60	72.80	92.10	19.30	231.60	1,807.50	5,250.00	3,442.50	688.50
45	82.40	122.00	39.60	475.20	7,417.50	21,420.00	14,002.50	700.13
22	92.10	115.60	23.50	282.00	16,019.50	26,579.50	10,560.00	704.00

[1] In each case the increased taxes are averaged over the number of years that the worker actually overreported; that is, over 5 years for the 60-year-old worker, 20 years for the 45-year-old worker, and 15 years for the 22-year-old worker.

WORKER AND WIFE, BOTH AGE 65

In the following examples, it is assumed that the worker started working in 1937 or at age 22, whichever is later, and that he continues working regularly (50 weeks a year) up to the year of attainment of age 65; it is further assumed that H.R. 1 (including coverage of tips) will be enacted in 1965. Federal income taxes are based on tax schedules effective in 1965. The worker who is age 22 in 1966 is assumed to begin overreporting, up to the maximum ($5,600), in 1994 (at age 50), and the workers who are age 45 and age 60 in 1966 are assumed to begin overreporting, up to the maximum ($5,600), in 1966.

Worker's age in 1966	Benefits at age 65				Total Federal income and social security taxes after 1965			
	Based on actual earnings	Based on overreporting	Increase resulting from overreporting		Based on actual earnings	Based on overreporting	Increase resulting from overreporting	
			Monthly	Yearly			Total	Yearly average[1]
Earns $30 a week in regular wages and $40 a week in tips:								
60	$128.40	$147.80	$19.40	$232.80	$2,217.50	$4,280.00	$2,062.50	$412.50
45	147.80	187.80	40.00	480.00	9,132.50	17,540.00	8,407.50	420.38
22	165.50	189.50	24.00	288.00	19,735.50	26,080.50	6,345.00	423.00
Earns $35 a week in regular wages and $65 a week in tips:								
60	147.80	152.60	4.80	57.60	3,680.00	4,280.00	600.00	120.00
45	178.20	189.50	11.30	135.60	15,095.00	17,540.00	2,445.00	122.25
22	208.40	214.40	6.00	72.00	32,598.00	34,443.00	1,845.00	123.00
Earns $20 a week in regular wages and $30 a week in tips:								
60	109.20	138.20	29.00	348.00	1,227.50	4,280.00	3,052.50	610.50
45	123.60	183.00	59.40	712.80	5,097.50	17,540.00	12,442.50	622.13
22	138.20	173.40	35.20	422.40	11,031.50	20,421.50	9,390.00	626.00

[1] In each case the increased taxes are averaged over the number of years that the worker actually overreported; that is, over 5 years for the 60-year-old worker, 20 years for the 45-year-old worker, and 15 years for the 22-year-old worker.

Mr. CURTIS. One other question that might involve you, Mr. Ball. A point has been made by the restaurant people that some of the employees that we are talking about work for different employers. I know this to be true on a subjective basis. The point is made that if the employers pays the social security tax on the employee and then if the amount of wages goes over, for the year, the base of $4,800, the employee gets a refund, but the employers do not get a pro rata refund.

This may be an important factor here. It has always appeared to me to be unfair not to extend the same right on a pro rata basis to the employers. I wonder if you would comment, particularly in the presence of these gentlemen, to throw light on the actual situation.

Mr. BALL. Yes, Mr. Curtis. If I may just redescribe what the situation is now and then comment on two points. The way it operates under present law, and of course would also operate under the bill as proposed, if an employee changes employers in the course of the year each employer reports on his wages up to the $4,800 maximum, and that means that in the first instance the employee may have withheld more than what he needs to pay for the year and he can claim a refund on his income tax, as you suggest.

However, there is no provision for the second employer or the third employer to recover anything. He has paid up to $4,800 perhaps on this employee and the earlier employer has also paid on the $4,800.

There is no provision for refund or for pro rating. My comments would go to two points——

Mr. CURTIS. Before you go on, would this apply also to the kind of employee who doesn't quit the employer, but is working constantly for one or two or possibly even three employers?

Mr. BALL. Yes, exactly the same situation.

Mr. CURTIS. Same situation there. There could be this overpayment.

Mr. Ball. Yes; well, overpayment in the sense that you are suggesting it.

Mr. Curtis. For example, suppose you have this person working for two and actually with tips and other things he makes, say, $3,000 at one place and $3,000 at the other.

Mr. Ball. They both report on $3,000.

Mr. Curtis. The employee would get a refund so that he just pays on the proper base.

Mr. Ball. Yes.

Mr. Curtis. But neither employer A nor employer B could.

Mr. Ball. That is correct. The first comments that I would make would go to the practicality of any change. The only two alternatives that we have thought of as a practical matter would be to excuse the second employer from making a contribution of an earlier employer was said to have reported on the full amount, and that has seemed to us to involve problems of equity between employers, even to perhaps some disturbance in the labor market if employers were to seek people on whose wages they would not have to pay a tax. The other possible solution, if one wanted to do something, concerns the prorating idea. Now that the wage base is at a point where this situation occurs fairly often, there would be a very substantial problem of determining who worked for what employers and then allocating contributions among them on a refund basis after the year was over.

Most fundamentally, Mr. Curtis, I think that we have not felt a need for a change here because we have felt that in many ways the employer contribution should not be thought of in this system as being paid solely for the benefit of a particular employee, but rather that the employer contribution goes partly for that purpose and partly also for certain weightings in the program that you and I have discussed on other occasions. If this reasoning is correct, then there isn't any policy reason why the employer contribution for a particular employee needs to always be related to the same base. One way of looking at this is to say it isn't an inequity and that there isn't a problem. The employer share can be looked at as a tax on a payroll for each employee up to $4,800, even though another employer may also have paid on this particular employee.

Mr. Curtis. Let me relate it to the problem as I see it here. Here we would be covering an industry more heavily than we were before where it seems to be more usual for this kind of situation of multiple employers to occur than, say, in the automobile field or whatever. Frankly the main point that I have been concerned about with the restaurant people is that this is hitting that industry pretty heavily righ after we hi them heavily by the change in the income tax laws in regard to what are deductible entertainment expenses. This would be a possible inequity, if you look at an industry, like the restaurant industry, competing for the consumer dollar against other industries which happen to have their labor relations on a different basis where they don't have employees working in this kind of fashion. So you would actually be taking from the industry more money as a result of their peculiar employment situation in having the employees in the field working under this kind of category of two and three employers.

Do you see what I am getting at?

Mr. Ball. Yes.

Mr. Curtis. This is an industry problem.

Mr. Ball. Mr. Curtis, it seems to me that two things perhaps should be said on this point.

One is that I would not think that this industry was at all at the extreme as far as movement between jobs is concerned. I would think, say the building trades, might very often have this situation, certainly as often, longshoremen, and other industries now covered for the full wage.

Mr. Curtis. May I interject there? You are naming the very ones where you have the hiring hall technique, which I happen to think is proper, where you have this economic situation. In building trades you have it. In maritime unions you have it. Here the restaurant industry shows they have a type of a hiring hall technique.

These are the very fields that do lend themselves to this kind of, in effect, overpayment by the industry.

Mr. Anderson. Congressman, in the enactment of the committee last year you raised the base of $5,600 and I would like to ask Mr. Ball if it isn't true that in raising the base to $5,600 this problem that you have been discussing with Mr. Curtis would largely disappear in this industry because of the low wage in this industry?

Mr. Curtis. Even with tips, would you say?

Mr. Anderson. Yes, sir.

Mr. Curtis. Even with tips you would——

Mr. Anderson. There would be some of course, but when get up to $5,600 a year you pretty well cover the waiters and the people in the service industry.

Mr. Curtis. That is why I was very happy to have this colloquy go on with you people present who know the actual situation, with Mr. Ball, who has the theory of it, and to tie this in.

Mr. Ball. I was going to say in answer to Mr. Anderson that—certainly as compared with building trades—the point that we were discussing would be much less true of your industry when you once raise the base to $5,600 than of several others that are already covered for the full amount of earnings.

Mr. Curtis. I hope you can give us a projection of what you might think the overpayment is because this is an industry that I again say has been hit—they have now recovered from it—by the change in our tax laws on expense accounts. There is a lot to what has been said here that there are people in the fringe employment area and where the restaurant and hotel industry itself is not as healthy as it might be and just one little factor like this could produce unemployment. If there were some inequity in it, it could be an area where we could make an adjustment.

As you say, there may be complications in doing it, but I myself would be very happy, if there were a practical way of doing it, to see that we did not hit an industry on the employer side of this tax more heavily than industries competing with it for the consumer dollar, by "more heavily" I mean going beyond the minimum base, the $4,800, or where it becomes $5,600.

Mr. Gettler. Mr. Anderson mentioned previous a survey that had been made by the Department of Labor, and in this survey we can readily determine the figures to show the amount of tips that the people in this industry do get per week and add that to the wages they get, and I think there will be no question when you see those figures that these people——

Mr. CURTIS. Do you have them there? Would you read them?

Mr. GETTLER. For example, they have up to $1.25 and they have not added them up. This is why it is a little difficult, and we would have to actually add them up, but I can readily by glancing at it see that approximately 85 percent or better of the persons in this industry make tips averaging less than $1.25 an hour. That is averaging.

If you take 40 hours of work that is $50 a week in tips for about 85 to 90 percent of the people. You get less than that.

Mr. CURTIS. They wouldn't be hitting this ceiling, anyway.

Mr. GETTLER. No. The average wages of waiters in this country average roughly 87 cents an hour. Multiply that by 40 hours and you get $34.80, so you have roughly 85 to 95 percent of the people making less than $85 a week including tips, so you aren't even going to hit the $4,800 figure.

Mr. CURTIS. Thank you.

The CHAIRMAN. Any further questions? If not, gentlemen, again we thank you for bringing to the committee this discussion. It has been most helpful.

Mr. ANDERSON. Thank you, Mr. Chairman. We appreciate this opportunity.

(The following letter was received by the committee:)

AMERICAN FEDERATION OF LABOR AND
CONGRESS OF INDUSTRIAL ORGANIZATIONS,
Washington, D.C., February 9, 1965.

HON. WILBUR MILLS,
Chairman, Committee on Ways and Means,
House of Representatives, Washington, D.C.

DEAR MR. CHAIRMAN: In connection with the deliberations of the House Ways and Means Committee on legislation to provide hospital and hospital-related care for elderly people and to make other changes in the Social Security Act, we wish to reiterate the support of the AFL–CIO for inclusion of a provision for coverage of employees' tips as wages for social security purposes. As you know, there is such a provision in section 205 of H.R. 1, a bill which we support.

This provision would give much needed additional social security protection to over a million workers who depend on tips for a substantial part of their income. It would give them higher benefits on retirement and it would give them greatly improved protection in the event of disability or death of the family breadwinner.

As you consider the problem of costs in the social security legislation now before your committee, you will recall that inclusion of tips, according to the actuary's estimate, reduces the level premium cost of the system by 0.02 percent.

Finally, we would like to point out that inclusion of employees' tips as wages for social security purposes has the endorsement of the advisory council on social security, which declared on page 78 of its 1965 report that "social security contributions should be paid on tips an employee receives from a customer of his employer, and tips should be counted toward benefits."

For these reasons, we again respectfully urge you to include in social security legislation before your committee a provision for coverage of employees' tips as wages for social security purposes.

Sincerely yours,

ANDREW J. BIEMILLER,
Director, Department of Legislation.
NELSON H. CRUIKSHANK,
Director, Department of Social Security.

The CHAIRMAN. The committee will adjourn until 10 o'clock in the morning. We have concluded now the people who have been invited to appear before the committee. There are some others that had wanted to come, but I can't see wherein we could get very much out of the offer from Blue Shield since the physician services are not involved in it. There were also some suggestions from a pharmaceutical group that they would come if we wanted them and so on, but I think we better in the morning begin with an analysis by Mr. Cohen of the suggestions that have been made, since he has had a chance now to analyze and to go into all of these suggestions in depth so he can respond to us with his thinking about these matters.

Mr. CURTIS. Mr. Chairman, may I make one request, and I touched upon it. It is this problem of policemen and firemen.

The CHAIRMAN. They are not in it.

Mr. CURTIS. They might be. I would like to get this information. It is just a question of information, and it is really directed to Mr. Ball. A representative of the policemen and firemen has stated that there isn't much gain that they could make by retiring at 50 and then coming in and being covered by social security, not having paid in before. I questioned it, but I said that I would ask for a report from your organization as to what is the picture, whether or not this is so. I wanted to have this material before marking up the bill.

The CHAIRMAN. You will have plenty of opportunity to do that.

Mr. CURTIS. I just wanted to make a request now, if you could give us a report on that, that it be put in the record.

The CHAIRMAN. Oh certainly. We have many questions we will want to ask, but I think our questions can better be asked from now on in relation to suggestions that have been made in the bill itself.

(The information referred to follows:)

ADVANTAGES GAINED BY POLICEMEN AND FIREMEN WHO ARE COVERED UNDER THE SOCIAL SECURITY PROGRAM FOR A SHORT TIME

Under the work requirements of the social security program, workers such as policemen and firemen are able to retire from a job not covered by social security and, while getting a retirement pension, work in covered employment long enough to qualify for social security benefits. This will always be possible, since a worker will never need more than 40 quarters of coverage—10 years of work—under the program to be eligible for retirement benefits; in the mature program, policemen and firemen, who generally retire at age 55, will be able to work in social-security-covered jobs long enough to be eligible for social security benefits by the time they are 65.

Policemen and firemen who qualify for social security benefits on the basis of short periods of work under the program will get a very large return, in relation to the contributions they pay, as compared with workers who spend all of their working lifetimes in covered employment. In fact, a worker reaching age 65 before 1967 can get, after no more than 10 years of covered work, a benefit as high as that of a man of the same age who earned at the same level, but who has been in covered employment during a full working lifetime. This situation exists because of the way retirement benefits are figured. Benefits are based on the worker's average monthly earnings figured generally over a number of years equal to 5 less than the number elapsing after 1950 (when the program was extended to cover the jobs of millions of workers not previously covered), or after age 21, if later, and up to the year in which the worker reaches age 65 (62 for women). Basing benefits on average monthly earnings figured over a number of years intended to approximate the length of time that a worker could reasonably be expected to have worked in covered employment has made it possible to provide reasonably adequate benefits to people who were near retirement age when the program began or when their jobs were first covered by social security. Benefits for men reaching age 65 this year are generally based on average monthly earnings figured over the 9 years of highest earnings after

1950, and benefits for men reaching age 65 in 1966 will generally be figured over the 10 years of highest earnings after 1950.

As the program matures, of course, the retirement benefits of workers covered under the program for only a relatively short time will be considerably lower than those of workers who were earning at the same level but who were covered under the program over a full working lifetime. This is because the amount of time over which average monthly earnings are figured is increasing; each year elapsing after 1950 adds another year to the number used in figuring the average monthly earnings of a person retiring in that year; eventually, with the passage of time, 38 years will be used in figuring the average monthly earnings of men and 35 years will be used in figuring the average monthly earnings of women.

As a result, people who have worked in covered jobs for, say, 10 of those years, even if they earned the maximum amount taxable and creditable toward benefits in each of the 10 years, will qualify for relatively low benefits. Their benefits will, however, be substantial in relation to the contributions they will have paid, and will be a bargain well worth the money. This is because the formula underlying the benefit table in the law is weighted in favor of the person with low average monthly earnings so that such a person gets benefits that are a larger percentage of his earnings than does the person with higher average earnings. (The formula underlying the benefit table in present law is 58.85 percent of the first $110 of average monthly earnings and 21.4 percent of the remainder. In order to provide a 7-percent increase in the benefits payable under present law, the formula underlying the benefit table in H.R. 1 approximates 63 percent of the first $110 of average monthly earnings, plus 23 percent of the next $290, and 22 percent of the next $66).

The weighting in the formula is intended to help people whose earnings under the program were low because it is recognized that lower paid workers and their families have less margin for reduction of their income than higher paid workers. The fact that this weighting is to the advantage of people whose earnings under the program were not in fact low but who worked under the program only a short time is incidental. Thus a policeman or fireman who in the future will qualify for benefits on th ebasis of a short period of work under the program will be getting an advantage not intended for him; in effect, he will be taking advantage of the program at the expense of the long-term covered worker.

There are, of course, advantages to be gained by policemen and firemen who become covered under the program as early in life as possible that are not available to workers who enter covered employment late in life. In the first place, as soon as a worker has acquired six quarters of coverage under the program, survivorship protection becomes available to his family, and the protection is maintained by the worker's continued participation in covered work. This survivorship protection would be of particular significance to young policemen and firemen in view of the hazardous nature of the duties they perform. Retirement systems for policemen and firemen are often seriously deficient in providing survivorship protection. Secondly, a worker may be eligible for disability insurance benefits (with supplementary benefits for his wife and children) after 5 years of work under the program, and he continues to be eligible as long as he continues to work under the program. This protection would also be important to young policemen and firemen in view of the nature of their occupations. Thus, if they were covered under the program in their regular work as policemen and firemen they would gain protection that would be helpful to them, and at the same time would not be given an unintended and unjustified bargain at the expense of others.

The enclosed table illustrates the benefits payable to workers who enter covered employment at selected ages and the amount of taxes paid in each case. In order to facilitate comparisons of the benefit-contribution relationship that obtains for the short-term covered worker with that for the long-term covered worker, the table shows also, for each example, the number of months for which the benefits would have to be paid before the worker would recoup his taxes.

ILLUSTRATIVE COMPARISON OF THE SOCIAL SECURITY BENEFITS THAT WOULD BE PAYABLE TO A WORKER COVERED UNDER THE PROGRAM OVER HIS ENTIRE WORKING LIFETIME AND TO A WORKER COVERED FOR ONLY THE 10-YEAR PERIOD BEFORE HE REACHED AGE 65 AND THE LENGTH OF TIME MONTHLY BENEFITS WOULD HAVE TO BE PAID IN ORDER FOR EACH TO RECOUP THE SOCIAL SECURITY TAXES

In the following examples, the man whose earnings are covered over his entire working lifetime is employed at his regular job until he retires upon reaching age 65 and has the maximum amount of earnings taxable and creditable toward social security benefits in each year he works. The examples assume H.R. 1 will be enacted in 1965, which would increase the earnings base to $5,600 beginning with 1966. The man whose earnings are covered only over the last 10 years of his working lifetime works as a policeman (or fireman) regularly until he reaches age 55; at age 55 he gets a job in covered employment and works up to age 65 and has earnings of $3,600 in each of the 10 years.

Beneficiary group	With worker's earnings covered over entire working lifetime			With worker's earnings covered over last 10 years of working lifetime		
	Monthly benefit	Lifetime social security taxes	Months for which benefit must be paid to recoup taxes	Monthly benefit	Lifetime social security taxes	Months for which benefit must be paid to recoup taxes
1. Worker age 65 in 1966:						
Worker only, age 65	$132.70	$2,106.00	16	$112.40	$1,044	10
Worker and wife, both age 65	199.10	2,106.00	11	168.60	1,044	7
2. Worker age 55 in 1966:						
Worker only, age 65	140.90	4,878.00	35	78.20	1,782	23
Worker and wife, both age 65	211.40	4,878.00	24	117.30	1,782	16
3. Worker age 22 in 1966:						
Worker only, age 65	149.90	12,381.60	83	49.30	1,872	38
Worker and wife, both age 65	224.90	12,381.60	56	74.00	1,872	26

(The following material was received by the committee:)

FEBRUARY 24, 1965.

Memorandum.
From: Robert J. Myers.
Subject: Adjustment of AHA data for average hospital expense per patient-day.

The discussion in connection with the HI benefits proposal has focussed considerable attention upon the AHA series of average hospital expense per patient-day, which, for 1963, showing a figure of $38.91. I have corresponded with the AHA (through Mr. Giesler, assistant director, division of research) on this matter and have obtained a considerable amount of interesting and informative data thereon that permits certain adjustments and refinements to be made so as to obtain a figure more nearly comparable with what the average cost of a day of hospitalization really is.

The AHA series is obtained simply by dividing the total expenses of all short-term general and other special hospitals by the number of inpatient hospital days exclusive of any days for newborn babies. In other words, included in the numerator are a number of expenses that are not related to the inpatients who make up the denominator; namely, costs for newborn babies, cost for outpatient clinics, expenses of such subsidiary operations as public restaurants and gift shops, etc. On the other hand, it is recognized that the denominator includes all inpatient days even though some of them might be nonpaying or only partial paying patients (with respect to some of these costs, there may be revenues from third-party sources, such as community chests). This memorandum will present the results of an analytical adjustment of the AHA figure for 1963 by taking into account two factors: namely, the cost for newborn infants (assuming that 1 day of care for them is equal to one-third day of care for other persons) and the cost of outpatient clinic visits. The number of patient days would be increased by about 2½ percent if the foregoing allowance is made for newborn babies, or in other words, the average expenses per patient-day would be reduced by 2½ percent. The AHA has informed me that there were 118 million outpatient visits in 1963 that could be assumed to have an average expense of $5 (which seems to be possibly on the low side); on this basis, the total expense of outpatient visits would be $590 million, and if this is deducted from the total expenses then the average expense, exclusive of outpatient visits per patient-day, inclusive of newborn babies (at their relative weighted cost), would turn out to be $35.10 or a 9.8-percent reduction over the published figure of $38.91.

A further reduction would be made if other hospital expenses, as indicated above, could be excluded, and if allowances to be made for the fact that other sources of income might offset some such non-inpatient costs as research, training, and education, and such as bad debts. On the other hand, there might be some increase in a computed average daily cost that allows for a sharing of the cost for patients who pay less than full cost, but this would depend in part upon the concept adopted for such sharing. In any event, however, I am convinced that any upward adjustment for the latter factor would be less than the additional downward adjustment that should be made for elements not considered in this memorandum. Accordingly, the 7-percent adjustment to the AHA series that I have been using in my HI cost estimates seems to be on the low side.

Robert J. Myers.

February 26, 1965.

Memorandum.
From: Robert J. Myers.
Subject: Cost estimate for the Byrnes bill.

This memorandum will present a cost estimate for the first full year of operation of the Byrnes bill, H.R. 4351, which would establish a program of voluntary comprehensive health insurance for all persons aged 65 or over, effective January 1, 1966. In making a cost estimate for this proposal, it is impossible to predict with any exactitude what proportion of the eligible persons will actually elect to participate. Three different participation assumptions are made; namely, 100 percent, 80 percent, and 50 percent. Although it is recognized that complete 100-percent participation will never be possible because of the parallel existence of the plan for persons under the civil service retirement program and because of low-income persons not on old-age assistance but who could possibly qualify for medical assistance for the aged under an adequate State plan not electing to participate.

The current cost estimate uses a figure of $16 per capita for benefits and administrative expenses (or 79 percent above the H.R. 1 cost of about $9). It may be noted the insurance industry uses a figure of $19.40 for the Byrnes bill—$18.50 for benefit costs, plus 5 percent for administrative expenses (or 55 percent above its estimate of $12.50 for H.R. 1).

If there were 100-percent participation, the Federal cost for the first full year of operation (which could be assumed to be fiscal year 1966–67) is estimated at $2.4 billion, while the participants themselves would contribute about $1¼ billion. With 80-percent participation, the Government cost would be $1.9 billion, while the participants would pay $1 billion, and with 50-percent participation the corresponding figures would be $1.2 and $0.6 billion, respectively.

It should be mentioned that dollar costs in future years will be increasingly higher than those for the first full year of operation. As to the participant contributions, this will be the case because of the larger number of eligible persons and because of higher benefit amounts (since those currently coming on the roll tend to have somewhat larger benefits than those who retired in previous years). The Government cost would increase at a more rapid rate than the cost for participants because of the anticipated more rapid rate of increase of medical costs than will be true for wages, which in turn will increase more repidly than benefit amounts.

One of the cost aspects of the proposal should be mentioned; namely, the increased cost to the OASDI system as a result of the liberalization of the earnings test. In fact, an amount of benefit equal to the monthly health contribution is made exempt from the earnings test for all persons aged 65 and over (regardless of whether or not retired). The estimated level cost of this change in the earnings test is 0.07 percent of taxable payroll.

Robert J. Myers.

MARCH 1, 1965.

Memorandum.
From: Robert J. Myers.
Subject: Effect of hospital insurance proposal on hospitalization costs of paying patients.

In the discussion of the hospital reimbursement formula and procedure under H.R. 1, the insurance business has taken the position that the "reasonable cost of such services" should include not only all the cost items that SSA contemplates, but also a fair share of bad debts and losses due to inadequate reimbursement to the hospital for welfare and charity patients of all ages. This view is supported by the statement that paying patients aged 65 and over are currently carrying their share of these costs.

On the other hand, the SSA position (which I fully agreed with) is that such losses on charity and welfare patients aged 65 and over will be virtually eliminated by H.R. 1 and that, therefore, the paying patients under age 65—even though they may bear the losses on charity and welfare patients under age 65—will be relieved of much more than they will have to bear in additional costs. In other words, my position is that the savings to paying patients under age 65 because they do not have to bear any of the costs of welfare and charity patients aged 65 and over will more than counterbalance their additional costs, because paying patients aged 65 and over (i.e., the hospital insurance beneficiaries on the whole) will not be bearing any of the costs of the charity and welfare patients under age 65 (as they now do, to some extent). It seems to me that on the surface, this should be apparent because of the relatively large number of charity and welfare patients aged 65 and over (including the "partial payment" cases arising among public assistance recipients, for whom much less than the reasonable or full costs are paid).

In order to illustrate the point of view of both parties (since I agree that, under some theoretical circumstances, which seem most unlikely, the insurance business position could result), I have constructed two hypothetical cases, shown in the attached table. Under hypothesis A, I have assumed a relatively high proportion of charity patients for the aged group and a low proportion for the under-65 group, while in hypothesis B, the reverse is the case. In all instances, I have assumed that the actual cost per patient is $40 per day and that this must be met in the aggregate by charges, which, under the present situation, are $50 per day so as to balance out total costs and total charges. It should be indicated that I have used the same per capita cost and the same per capita charges for both age categories; this has been done for purposes of simplicity, although I fully recognize that both costs and charges, on a per capita daily basis, will be somewhat lower for the aged group than for the younger group (for reasons that I have fully gone into in other places).

It is then assumed that the situation after H.R. 1 is enacted would be that all the patients aged 65 and over would pay the hypothesized actual cost of $40 and that the under-65 paying patients would be charged whatever rate would be necessary to make total charges (including the per capita reimbursements under hospital insurance) equal total costs. Under hypothesis A, the per capita charge on under-65 paying patients would be reduced from $50 to $46.15, whereas under hypothesis B, it would be increased from $50 to $51.72.

It seems to me that the situation that I have described as hypothesis A is much closer to the actually existing situation than in hypothesis B, which seems to be most unlikely. I believe that the simplification of assuming that patients are either 100 percent paying or 100 percent charity does not affect the validity of the analysis because, in the case of partial-paying patients, they could, for proper analytical purposes, be subdivided fractionally into the two catagories. I would find difficulty in setting down a hypothetical situation of the type that I have used under which the charge to under-65 paying patients would be increased that would seem at all reasonable as to its distribution between the four age-paying categories. Perhaps my colleagues in the insurance business might attempt this task.

ROBERT J. MYERS.

Hypothetical situations as to changes in hospital charges under situation after H.R. 1 as contrasted with present situation

HYPOTHESIS A

Category of patient	Present situation			Situation after H.R. 1		
	Number of patients	Per capita charge	Total charges	Number of patients	Per capita charge	Total charges
Under 65, paying	65	$50	$3,250	65	$46.15	$3,000
Under 65, charity	10			10		
Over 65, paying	15	50	750	25	40.00	1,000
Over 65, charity	10					
Total	100	(1)	4,000	100	(1)	4,000

HYPOTHESIS B

Under 65, paying	58	$50	$2,900	58	$51.72	$3,000
Under 65, charity	17			17		
Over 65, paying	22	50	1,100	25	40.00	1,000
Over 65, charity	3					
Total	100	(1)	4,000	100	(1)	4,000

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[1] Not meaningful.

MARCH 1, 1965.

Memorandum.
Comments on "HEW Misleads, Confuses."
ROBERT J. MYERS,
Chief Actuary.

The AMA News for February 22 carries the above-described editorial, whose main points are that the hospital insurance proposal is actuarially unsound and that the actuarial cost estimates were not honestly presented in Actuarial Study No. 59. This memorandum will first present the underlying facts in regard to the cost estimates and will then discuss how these facts have been presented to all parties concerned.

The underlying financing basis of the HI proposal rests on two primary factors—the rate of hospital utilization and the cost of a day of hospitalization relative to covered earnings under the program. It is only the latter factor that is under consideration here.

Assumptions must be made as to the long-range relative trend of hospitalization costs as compared with the level of earnings. The cost estimates have assumed that, for a period of 10 years hospitalization costs would rise more rapidly than earnings, but that thereafter these two elements would move at about the same rate. It seems almost obvious that hospitalization costs could not forever increase more rapidly than general wages because, due to the compounding effect over a long period of time, hospitalization costs would then be so high as to be "priced out of the market." On the other hand, good argument could be made for an assumption that hospitalization costs—just as the costs of other goods and services over the past history of this country—will eventually rise at a less rapid rate than general earnings.

Thus, the long-range financing basis of the HI program rests on the assumption that, after an initial differential of hospitalization prices over the general earnings level, these two elements will move at the same rate. But one other factor must be considered in this respect; namely, the maximum taxable earnings base under the program. If wages rise steadily in the future—as has been historically the case in the past—it would seem unrealistic to assume that the earnings base will not change. The past experience of the OASDI program has been that the earnings base has been increased several times—although, admittedly not as rapidly as the general earnings level. However, in the 1950's, the changes made did keep closely apace with changes in the earnings level, and the $5,600 earnings base proposed in H.R. 1 would do so to a partial extent.

The long-range cost estimates for the cash benefits of the OASDI system have always been based on the assumption of level earnings in the future—or, it might be said, on the alternative assumption that, if earnings rise in the future, then both the earnings base and the general benefit level will be kept up to date therewith. For the cash benefits portion of the program, this is a conservative assumption because, if the general level of earnings rises, and if the earnings base is left unchanged, then a savings to the system results (this is because of the weighted nature of the benefit formula, such that higher amounts of earnings do not produce proportionately increased benefits). If, in the event of rising earnings, the earnings base is increased, then a further gain to the system results. Both of these gains can be utilized to increase the benefits so as to keep them up to date with the changed earnings level. In fact, under most circumstances, the gains resulting from an increased earnings level will be sufficient to increase benefits to reflect changes in the cost of living, even if the earnings base is not changed (it may be noted that increases in the cost of living are usually well less than half of the increases in the general earnings level, according to past experience).

Accordingly, based on the actuarial procedures of the past three decades in connection with the cash benefits program, it seemed reasonable to prepare the long-range cost estimates for the HI proposal on the basis of level-earnings assumptions, which in turn are roughly equivalent to an assumption that the taxable earnings base will be increased in the future at the same rate as the general earnings level rises.

Over the years, it has been the practice to present short-range actuarial cost estimates under the assumption of rising earnings, but with the provisions of the program remaining unchanged. For a short period of years, this is a realistic procedure because the law may well remain unchanged for a few years. However, the further these short-range cost estimates are carried out, the less reasonable and realistic they tend to be, because changes in legislation are likely to occur.

Now, turning to the particular cost estimates that the AMA News has criticized, it is quite true that if the short-range cost estimates (which, as indicated previously, assume rising earnings, but no changes in the law) are carried out through 1976, the HI trust fund would be exhausted then. I believe, however, that the assumption made as to the earnings base remaining unchanged for 10 years is not as realistic as that on which the long-range estimates and financing are based (namely, an earnings base that changes from time to time to keep it up to date). As indicated previously, the financing of the HI program in H.R. 1 is adequate on the reasonable assumption that the earnings base keeps up to date in the future with what $5,600 was in 1963 (the year on which all earnings assumptions in the cost estimates for both the present program and H.R. 1 are based).

It may be noted that if the earnings base does remain unchanged for the next 10 years, even though the HI program would encounter financial difficulties, the combined system of cash benefits and hospitalization benefits would likely be in a very sound financial position. The gains resulting to the cash benefits portion of the program would be far larger than the higher cost arising (relative to taxable payroll) for the HI benefits.

Now let us consider the AMA charges of my report being misleading and confusing, with which I am most concerned and dismayed because I always try to present the full facts underlying the cost estimates and the financing bases, so that all sides can see the situation. Furthermore, I have always done my utmost to furnish complete supplementary information and data to any responsible party that so requests.

The short-range cost estimates were published only through 1972, but this procedure was not done to hide the facts. A study of the cost estimates presented over the years—in congressional reports, in reports of the board of trustees, and in SSA documents—would show that the short-range cost estimates have usually been presented for only 5 years into the future (because of the artificiality of assuming that the law would remain unchanged for a longer period, despite significantly rising earnings levels). In order to present a clear picture of the situation—and particularly as to the importance of the earnings base being kept up to date—Actuarial Study No. 59 carried the HI short-range estimates through 1972, when a decrease in the balance in the trust fund occurred. The text clearly brought this out and also indicated that such decline would continue until the trust fund would be exhausted—again under the assumption that the earnings base would not be kept up to date. The text clearly indicated in several places that one of the basic assumptions underlying the long-range financing of the HI program is that the earnings base will be kept up to date.

It should also be clearly noted, and on the record, that the data for the short-range estimates beyond 1972 were promptly and without hesitation given to a staff member of the AMA upon request. Thus, there was no attempt to hide the facts, and the underlying assumptions and financing bases were fully described in Actuarial Study No. 59 for one and all to read, analyze, and form opinions on. It is also noteworthy that the various newspaper stories about the short-range cost estimates as carried out through 1976 must have come either directly or indirectly from the AMA, since, as it so happens, no other person or organization requested these data from me.

ROBERT J. MYERS.

MARCH 23, 1965.

Memorandum.
From: Robert J. Myers, Chief Actuary.
Subject: Actuarial data.

Attached herewith are six tables giving actuarial data on the proposal now pending before the House Ways and Means Committee in regard to the OASDI system, the proposed hospital insurance system, and the proposed supplementary health insurance benefits system.

ROBERT J. MYERS.

TABLE 1.—*Actuarial balances under OASDI proposal*

[Expressed as percentage of taxable payroll]

Item	Percentage		
	OASI	Disability insurance	OASDI
Actuarial balance of present system	+0.14	−0.13	+0.01
Earnings base of $5,600 to $6,600	+.48	+.04	+.52
Revised contribution schedule [1]	−.01	+.25	+.24
Extension of coverage	+.03		+.03
Benefit increase	−.59	−.05	−.64
Child's benefits to age 22 if in school	−.10	−.02	−.12
Reduced widow's benefits at age 60			
Transitional insured status (age 72+)	−.01		−.01
Disability definition revision		−.05	−.05
Reduced rate basis for self-employed	−.02		−.02
Earnings test change	−.04		−.04
Actuarial balance under proposal	−.12	+.04	−.08

[1] Revised contribution schedule is as follows:

Year	Earnings base	Employer-employee rate	Self-employed rate
		Percent	*Percent*
1966–68	$5,600	8.0	6.0
1969–70	5,600	8.8	6.6
1971–72	6,600	8.8	6.6
1973+	6,600	9.6	7.0

TABLE 2.—*Estimated progress of OASI trust fund*

[In millions]

SHORT-RANGE ESTIMATE

Calendar year	Contributions	Benefit payments	Administrative expenses	Transfer to RR account	Interest on fund	Fund at end of year
1965	$16, 014	$16, 875	$350	$399	$566	$18, 081
1966	18, 472	18, 250	375	411	550	18, 067
1967	19, 714	19, 180	361	495	572	18, 317
1968	20, 325	19, 943	367	466	597	18, 463
1969	22, 920	20, 785	375	475	647	20, 395
1970	24, 011	21, 634	383	452	745	22, 682
1971	25, 936	22, 546	391	428	871	26, 124
1972	27, 186	23, 392	399	408	1, 031	30, 142
LONG-RANGE ESTIMATE						
1975	$28, 399	$24, 440	$382	$307	$1, 105	$36, 829
1980	30, 659	28, 362	423	129	1, 770	56, 137
1990	35, 090	36, 105	510	−24	2, 519	77, 348
2000	40, 701	40, 407	559	−78	3, 039	93, 807
2025	50, 507	61, 411	769	−107	3, 771	111, 871

TABLE 3.—*Estimated progress of disability insurance trust fund*

[In millions]

SHORT-RANGE ESTIMATE

Calendar year	Contributions	Benefit payments	Administrative expenses	Transfer to RR account	Interest on fund	Fund at end of year
1965	$1, 187	$1, 612	$85	$20	$51	$1, 568
1966	1, 840	1, 784	110	20	46	1, 540
1967	2, 044	1, 880	119	20	46	1, 611
1968	2, 109	1, 959	124	15	48	1, 670
1969	2, 177	2, 017	128	15	50	1, 737
1970	2, 246	2, 069	132	15	54	1, 821
1971	2, 426	2, 126	135	15	59	2, 030
1972	2, 543	2, 174	139	15	68	2, 313
LONG-RANGE ESTIMATE						
1975	$2, 412	$2, 146	$103	−$3	$109	$3, 502
1980	2, 604	2, 346	106	−11	159	5, 014
1990	2, 980	2, 630	107	−14	300	9, 270
2000	3, 456	3, 096	120	−14	541	16, 442
2025	4, 289	4, 230	156	−14	1, 237	36, 958

TABLE 4.—*Hospital insurance contribution rates*

Year	Earnings base	Employer-employee rate	Self-employed rate
		Percent	*Percent*
1966	$5,600	0.7	0.35
1967 to 1970	5,600	1.0	.50
1971 to 1972	6,600	1.0	.50
1973 to 1975	6,600	1.1	.55
1976 to 1979	6,600	1.2	.60
1980 to 1986	6,600	1.4	.70
1987+	6,600	1.6	.80

NOTE.—For the 25-year period, 1966–90, the level-equivalent of the above contribution schedule is 1.23 percent of taxable payroll (which is also the level-cost of the benefit payments and administrative expenses including the building up of a trust fund equal to 1 year's outgo).

If the earnings base were assumed to rise after 1971, the contribution rates required would be lower than shown above.

TABLE 5.—*Estimated progress of hospital trust fund*

[In millions]

Calendar year	Contributions	Benefit payments	Administrative expenses	Interest on fund	Fund at end of year
1966	$1,578	$982	[1] $50	$17	$562
1967	2,601	2,192	66	20	925
1968	2,790	2,391	72	34	1,286
1969	2,879	2,607	78	45	1,525
1970	2,983	2,840	85	50	1,633
1971	3,327	3,055	92	55	1,868
1972	3,488	3,280	98	60	2,038
1973	3,929	3,516	105	68	2,414
1974	4,120	3,760	113	77	2,738
1975	4,267	4,028	121	84	2,950
1980	6,123	5,276	158	140	5,018
1985	7,038	6,823	205	236	7,681
1990	9,030	8,754	263	306	9,948

[1] Including administrative expenses incurred in 1965.

TABLE 6.—*Estimated progress of supplementary Health Insurance Benefits Trust Fund*

[In millions]

Calendar year	Contributions		Benefit payments and administrative expenses	Interest on fund	Fund at end of year
	Participants	Government			
LOW ESTIMATE, 80 PERCENT PARTICIPATION					
1966	$275	$275	$260	$5	$295
1967	560	560	840	15	590
LOW ESTIMATE, 95 PERCENT PARTICIPATION					
1966	$325	$325	$310	$5	$345
1967	665	665	995	20	700
HIGH ESTIMATE, 80 PERCENT PARTICIPATION					
1966	$275	$275	$345	$5	$210
1967	560	560	1,120	10	220
HIGH ESTIMATE, 95 PERCENT PARTICIPATION					
1966	$325	$325	$410	$5	$245
1967	665	665	1,330	10	255

NOTE.—Not included above is the advance appropriation from general revenues that is to provide a contingency reserve during fiscal year 1966–67 (to be used only if needed and to be repayable).

The CHAIRMAN. This concludes the list of individuals whom the committee invited to appear on specific technical aspects of this legislation. Of course, the information which the members requested these individuals to supply for the record will be included at the proper point.

Without objection, the committee will adjourn until 10 o'clock in the morning to continue in executive session.

(Whereupon, at 11:40 a.m., the committee recessed to reconvene at 10 a.m., Wednesday, February 17, 1965.)

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